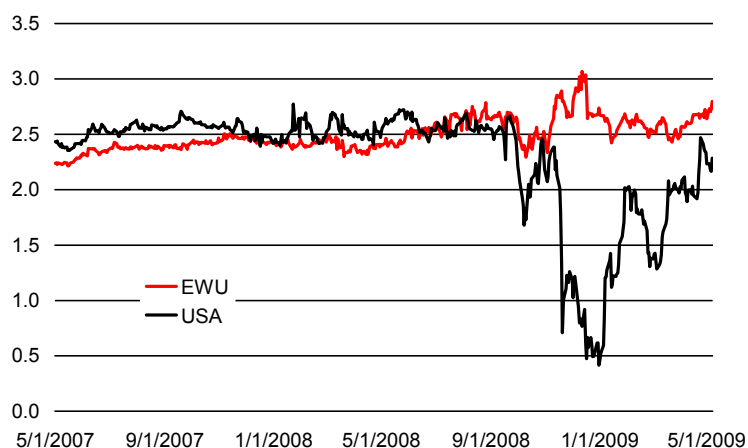


Inflation gives central banks free rein

- **Easing.** At its May meeting, the ECB lowered its key interest rate to 1.0%. As a result, it has probably reached the low point. Instead, additional unconventional measures are being implemented. Full allocation of Refi operations is, as expected, being extended to 12 months. Moreover, the Governing Council agreed to purchase covered bonds (page 2).
- **Uncertainty.** The Fed and the BoE are already pursuing direct purchases of securities (page 8). This week, the BoE more than doubled its program to GBP 125 bn. The extremely loose monetary policy combined with the severe global recession, which even deepened further in many countries in the first quarter (page 11), is resulting in widely diverging inflation assessments.
- **Anchored.** The central banks rate the inflation picture currently as balanced, underpinned by still firmly anchored medium-term inflation expectations (see chart). High excess capacities around the globe as well as the steep rise in unemployment make a price spiral look highly improbable in the foreseeable future (page 4).
- **Caution.** To maintain their credibility with respect to price stability, the central banks must, however, keep their assertion. Once the recovery becomes entrenched, they have to use the measures at their disposal to siphon off the excess liquidity in a timely manner. Otherwise, the case for inflation expectations getting out of control will clearly intensify.
- **Further topics:**
 - **Data outlook:** EMU: GDP contracted strongly in Q1 (page 13).
 - **Market outlook:** Bonds on the offer side; GBP remains under pressure (page 20).

DEFLATION PRICED OUT, NO MAJOR INFLATION FEARS

5Y-5Y forward inflation breakeven in % y-o-y



Source: Bloomberg, UniCredit Research

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MIB MACRO FORECASTS

in % y-o-y	2008	2009	2010
GDP EMU	0.7	-4.0	0.1
CPI EMU	3.3	0.4	1.3
GDP Germany	1.0	-5.8	0.4
CPI Germany	2.6	0.6	2.0
GDP Italy	-1.0	-4.2	-0.3
CPI Italy	3.3	0.8	1.5
GDP US	1.1	-2.6	1.4
CPI US	3.8	-0.6	2.2

MIB FI/FX FORECASTS

2009/10	30-June	30-Sept	31-Dec	31-Mar
EMU 3M (%)	1.30	1.30	1.30	1.25
EMU 10Y (%)	2.70	2.80	3.00	3.30
US 3M (%)	1.15	0.80	0.65	0.65
US 10Y (%)	2.30	2.30	2.80	3.40
EUR-USD	1.27	1.28	1.33	1.36
USD-JPY	97	102	103	105
Oil Price	50	55	65	70

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Big bang

The crucial question this week was whether or not the ECB would take the plunge and announce direct purchases of financial assets. It did. Trichet had raised expectations for the May press conference when he stated one month ago that the ECB would then announce whether or not it was prepared to launch further non-conventional measures. Since then, there had been many indications that the Governing Council's debate on the need for such measures and on the technical complications involved was still very intense, flagging a risk that no agreement would be reached by May beyond lengthening the maturity of refinancing operations.

The ECB has decided in principle to buy up to EUR 60 bn in covered bonds, beginning in June, to help revive a specific market segment that it sees as particularly affected by the financial crisis. With this targeted action, the ECB aims to further ease financing conditions for both banks and corporates. Moreover, the ECB has not excluded the possibility of expanding the purchase program to other assets - to be precise, Trichet noted that no decision has been taken beyond that regarding covered bonds.

For the ECB this is a big, bold and decisive step. The extraordinary operations adopted so far on the liquidity front have been very effective—as Trichet pointed out, 3-month and 6-month market rates in the eurozone are now lower than in some countries where policy rates are at zero, and Euribor/OIS spreads are lower in the eurozone than in the UK or the US. However, the ECB has clearly recognized that the fragility of the growth outlook warrants additional measures. Some members of the Governing Council appeared to be very reluctant to move to direct purchases, so for the Council as a whole this is indeed a big step.

Targeting private assets allows the ECB to steer clear of accusations that it would be monetizing fiscal deficits. Of course, it cannot avoid the criticism that the measure will help some countries more than others, and already in this week's Q&A Trichet was asked whether buying covered bonds would not favor German banks. In fact, in a recent paper,

(http://www.ecb.int/pub/pdf/other/coverbondsintheeurofinancialsystem200812en_en.pdf) the ECB noted that covered bonds issued from Denmark, Germany, Spain, France and the UK accounted for 84% of the total outstanding at end-2007. Germany and to a lesser extent Denmark account for the lion's share. Trichet naturally countered that all decisions were taken in the best interest of the eurozone as a whole, but more importantly, we need to bear in mind that given the fragmented nature of eurozone markets, no instrument could have been seen as "fair". And while the immediate impact

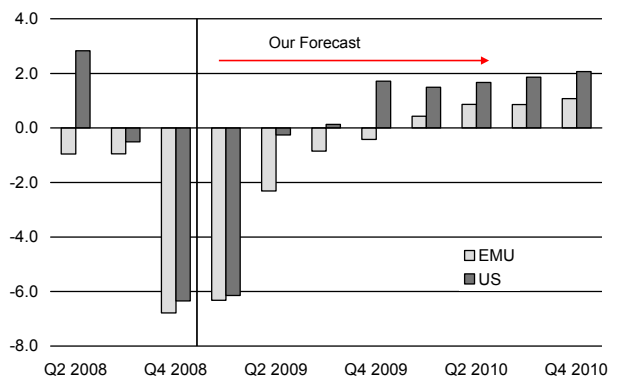
might be stronger in some countries, this measure will bring important relief to the whole area by easing overall credit conditions.

Trichet signaled that the refi rate is likely to remain at 1.0% for a while, but made it clear that this was not a pre-determined floor. In other words, the ECB considers the current level of rates as appropriate given current conditions, but does not exclude further cuts should circumstances change.

Trichet also made clear that the ECB is taking the green shoots with a big pinch of salt. He noted that hard data were looking somewhat better, however following a much weaker than expected Q1, which would leave its mark on the rest of the year. In other words, economic activity seems to be stabilizing but at a very low level. He warned that the ECB staff forecast would be revised downwards further, and that the economy faced a deep recession this year and a tentative recovery next year.

ONLY A MODERATE RECOVERY AHEAD

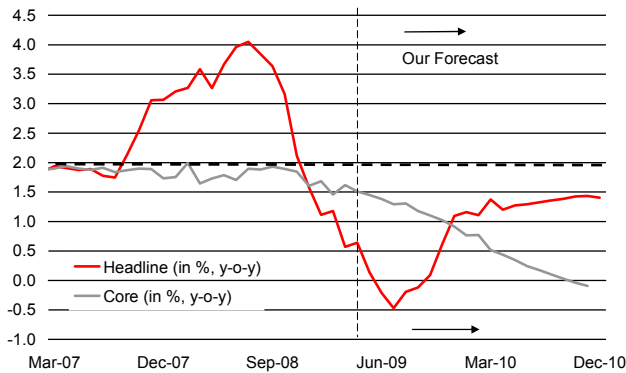
GDP Growth (Quarterly annualized) in %



Source: BEA, Eurostat, UniCredit Research

Similarly, Trichet acknowledged a broader cooling off of inflation, which is beyond the base effect on energy prices, and noted that going further inflation would continue to be dampened by weak levels of activity. This is in line with our assessment that core inflation will continue to decline in response to the widening output gap. Trichet noted that inflation will be negative "for some months". This is also in line with our forecasts, and I would reiterate that the risk of deflation, while small, should not be underestimated.

LOW INFLATION FOR THE FORESEEABLE FUTURE



Source: Eurostat, UniCredit Research

Trichet also noted that current arguments that central banks' policies are laying the ground for a resurgence of inflation are both unjustified and extremely counterproductive - something on which I strongly agree.

The ECB announced that the maturity of refinancing operations will be lengthened to twelve months, and that starting in July the European Investment Bank will become an eligible counterparty.

An equally important element of the May press conference, in my view, was the ECB's clear and firm commitment to promptly unwind its extraordinary operations and drain liquidity once the recovery becomes entrenched. This strikes exactly the right balance: a decisive commitment to do all that is necessary to fight the recession and the risk of deflation, accompanied by an equally decisive commitment to reverse course as soon as needed. This should maximize the efficacy of the current policy effort, while ensuring that longer term inflation expectations remain firmly anchored. In this regard, Trichet did well not to commit to keeping rates at or below current levels for a prolonged period of time.

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US inflation: For the time being, the only way is down

- The uncertainty regarding the future development of inflation in the US is exceptionally high. The spectrum of expectations ranges from deflation to hyperinflation.
- Given the global slack in the utilization of resources, we think disinflation is unavoidable over the next one to one and a half years. In March, the headline inflation rate even turned negative for the first time since 1955.
- The core inflation rate has, in contrast, accelerated slightly of late. But once some special factors have worked their way out of the statistics, the core rate will also trend steadily lower in coming months.
- Rising inflation expectations pose a risk for the tentative economic upswing. However, the Fed has succeeded so far in holding expectations in check. It is crucial that the Fed remains transparent and times the tightening of the monetary policy reins correctly.

From deflation to hyperinflation

The uncertainty regarding the future development of inflation in the US is great. The spectrum of expectations ranges from deflation, over disinflation, to a spike in inflation rates or even hyperinflation. One factor arguing for substantially higher inflation rates is the significant rise in the monetary base combined with the ballooning federal debt. On the other hand, considerable global slack in the utilization of resources, first and foremost the high unemployment rate, as well as low demand point to falling inflation rates or even deflation. Who is right? We lean towards the second scenario. In light of immense underutilization of resources, we think disinflation over the next 1 to 1½ years is a foregone conclusion.

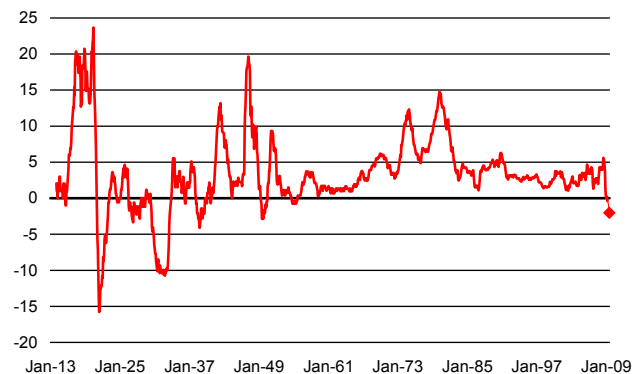
Inflation rate is already negative

In March, the headline inflation rate fell to -0.4% y-o-y. For the first time since 1955, the inflation rate in the US is, therefore, negative again. And the pace of the decline will accelerate further. We expect headline inflation will fall to -2% by mid-year. That would be the lowest since 1949 (cf. chart in the next column)! The primary culprit is falling energy prices: Since July last year, the price of crude oil has plummeted at an annual rate of 70%. The inflation rate will only stabilize again once this negative basis effect has worked its way out of the statistics. The reason why we do not call this development “deflation” despite negative inflation rates is that it does not reflect a sustained decline in the general price level. A necessary precondition for deflation would be that the prices of other goods also decline. That, in

turn, implies a negative core inflation rate. The latter, however, has not fallen in recent months but has even risen.

INFLATION RATE NEGATIVE AGAIN AFTER FIVE DECADES

Consumer price index, in % y-o-y



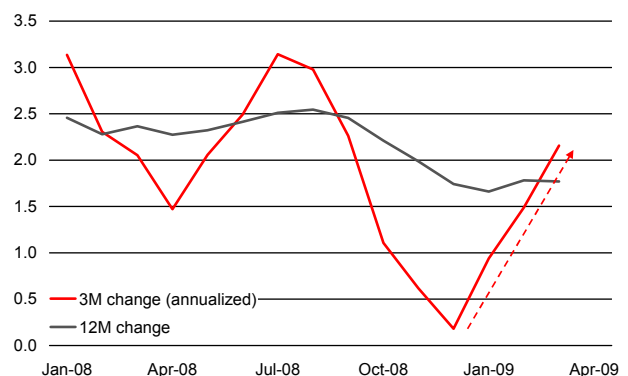
Source: Fed St. Louis, UniCredit Research

Special factors lift core inflation in Q1

In the last three months, the consumer price index ex food & energy, the core CPI, has risen at an annual rate of 2¼%, after rising by a meager ¼% in the last three months of the past year (cf. chart). This development flies in the face of the economic situation. After all, the US economy has just turned in its worst half-year since the late 50s. In such an environment, inflationary pressures usually subside, and do not increase. But this contradiction is easily resolved. As the following table illustrates, the acceleration in the core rate is attributable mostly to three items: apparel, new vehicles and tobacco.

CORE INFLATION HAS ACCELERATED

CPI ex food & energy, in %



Source: BLS, Thomson Datastream, UniCredit Research

THE COMPONENTS OF THE CONSUMER PRICE INDEX

In % q-o-q (at annual rates)

	I/08	II/08	III/08	IV/08	I/09
All items	4.5	4.5	6.2	-8.3	-2.4
Food	4.9	6.6	8.5	4.3	0.1
Energy	20.3	21.1	29.3	-62.3	-34.3
All items ex food & energy	2.5	2.0	2.8	0.6	1.5
Shelter	2.6	1.9	2.3	1.5	0.9
Owners' equivalent rent	2.7	2.3	2.1	2.0	2.2
Residential rent	3.7	3.3	3.8	3.4	2.8
Lodging away from home	1.0	-4.3	1.5	-6.9	-14.0
Apparel	0.1	-1.8	4.5	-3.5	2.7
New vehicles	-1.9	-1.4	-1.7	-6.0	2.7
Used vehicles	2.3	-5.1	-9.0	-14.6	-12.6
Public Transportation	7.6	18.7	17.7	-19.9	-18.5
Medical Care	3.9	2.1	2.2	2.7	4.0
Recreation	1.9	1.3	3.2	1.6	0.8
Education	5.7	5.9	5.9	5.4	5.0
Communication	0.1	2.8	3.3	-0.3	1.4
Tobacco	8.2	5.8	10.5	2.4	23.0
Personal Care	3.2	4.2	2.4	1.8	0.8
Core goods	0.7	-0.5	1.0	-2.1	1.4
Core services	3.2	3.0	3.5	1.7	1.6

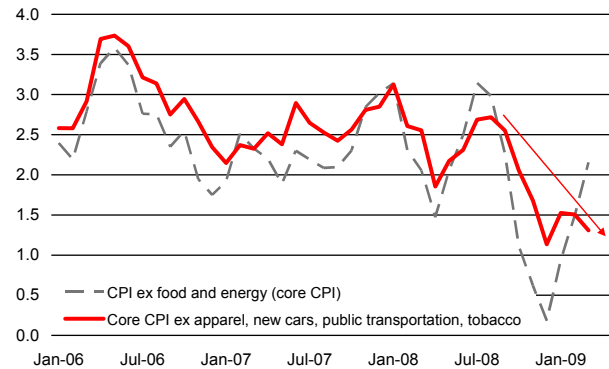
Source: BLS, Thomson Datastream, UniCredit Research

The increases in these components will weaken again substantially in the coming months, or even reverse: Tobacco prices increased in March because of a tax hike. The rise in the prices of new vehicles apparently has to do with the fact that last year the auto groups failed to sell their 2008 models. The introduction of the new 2009 models, for which no discounts are being offered, has therefore been delayed. The rise in apparel prices does not gel with the macroeconomic environment either: First, retailers had to slash their prices in order to attract customers. Second, import prices for textiles have fallen ¼% in the last 12 months. One special factor working in the opposite direction is the sharp decline in prices of airline tickets (public transportation). In the last two quarters, they have lowered the core rate by slightly more than one quarter of a percentage point. As a result, the realignment of ticket prices to lower energy costs has probably been mostly completed, and public transportation prices should stabilize in the current quarter.

To quantify the impact of these special factors, we have isolated the prices for apparel, new vehicles, tobacco and also public transportation from the core CPI. As the following chart illustrates, the increase in the price of the remaining items – which still make up 87% of the core index – have weakened further recently. In contrast to the overall core CPI, which increased by 2¼% between December and March, the index adjusted for special factors increased in the same period by only 1¼%, i.e. a full percentage point less.

SPECIAL FACTORS LIFT CORE INFLATION IN EARLY 2009

Core CPI, annualized 3M change in %



Source: BLS, Thomson Datastream, UniCredit Research

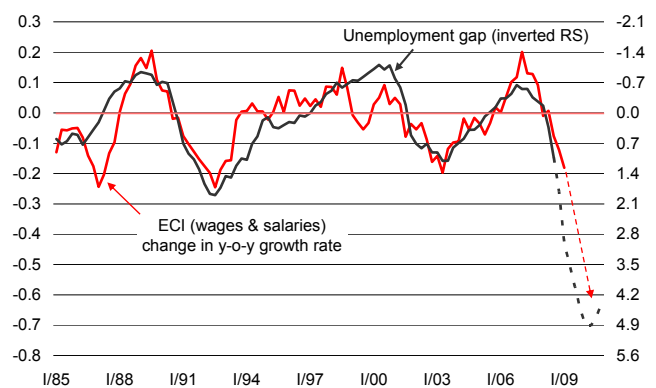
Cost pressure waning considerably

The most important cost factors also point to disinflation. The employment cost index (ECI), in our view the best measure of labor cost pressure, increased at an annual rate of only 1% in the first quarter. This was the smallest quarterly increase since records began in 1982. As a result, the y-o-y rate slowed from 2.6% to 2.1%, which is also a new record low. In private industries, i.e. excluding the public sector, the ECI even rose by only 1.9% y-o-y.

But the weakening of the wage cost pressure is by no means over. As the following chart illustrates, the unemployment gap, i.e. the deviation of the unemployment rate from the non-accelerating inflation rate of unemployment (NAIRU), is the most important determinant for the change in the ECI. If the unemployment rate is below the NAIRU, wage pressure

RISE IN LABOR COSTS WILL SLOW FURTHER APPRECIABLY

In percentage points



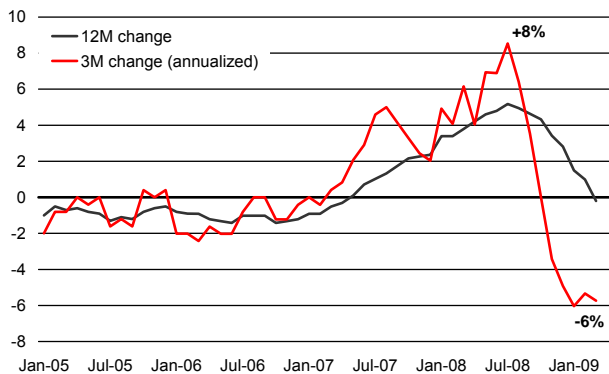
Source: BLS, Thomson Datastream, UniCredit Research

increases, and *vice versa*. In light of the deep recession, we expect the unemployment rate to increase to 10% by the end of the year. The unemployment gap will, therefore, widen to +5%. That implies that the rate of increase in the ECI will continue to slow considerably in coming months.

Analogously, capacity utilization in the US has fallen to an all-time low of 69¼%. Europe and East Asia are experiencing a similar oversupply of idle resources. As a result, prices for Chinese goods, for example, have fallen at an annual rate of 6% in the last three months (cf. chart). At the middle of last year, they were still rising at 8% p.a.

US IMPORTING DEFLATION FROM CHINA

Import prices for Chinese goods, in %



Source: BLS, Thomson Datastream, UniCredit Research

Deflation scenario is priced out

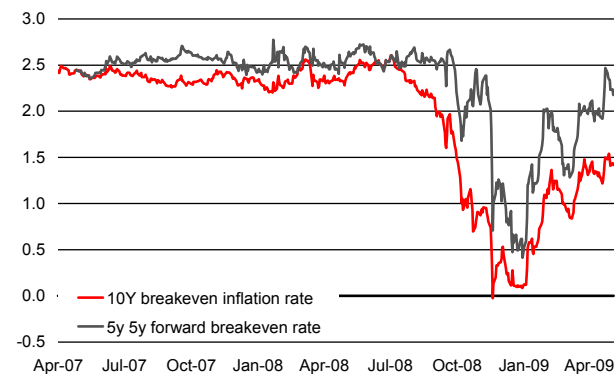
Alongside the fundamental factors, inflation expectations are the second key determinant for inflation. Usually, the transmission channels are as follows: rising inflation expectations → higher wage demands → higher costs → rising inflation, or rising inflation expectations → higher current consumption → rising inflation. These “traditional” channels have, however, most likely been suspended at the moment in light of the high unemployment rate. Even if employees expect rising inflation, they will hardly be in a position to negotiate substantially higher wages. Equally, households will not increase current consumption, and businesses can raise their output prices only moderately given this reluctance to buy. There are, however, two other transmission channels through which rising inflation expectations could adversely impact the economy: 1.) Rising inflation expectations lead to rising yields and, therefore, higher mortgage rates. As a result, the tentative upswing could be nipped in the bud. 2.) Because of rising inflation expectations, the USD could depreciate further. Imported goods would become more expensive, and domestic

producers could in this way achieve greater pricing power after all.

But for this to happen inflation expectations would have to continue to rise strongly. The increase in the last few weeks was nothing more than a partial pricing out of the deflation scenario. It started at the beginning of January, when the oil price had bottomed at just below USD 35 per barrel. But even though oil prices have risen again in the interim to above USD 50 pb, inflation expectations derived from inflation-indexed bonds are still clearly below the average of recent years. The break-even inflation rate for 10Y Treasuries is currently 1.4%, for 5Y Treasuries 0.9% and for 2Y Treasuries -0.3%. The 5Y5Y implied forward inflation rates have risen to 2.2% (cf. chart).¹

DEFLATION SCENARIO IS PRICED OUT

Inflation expectations in %



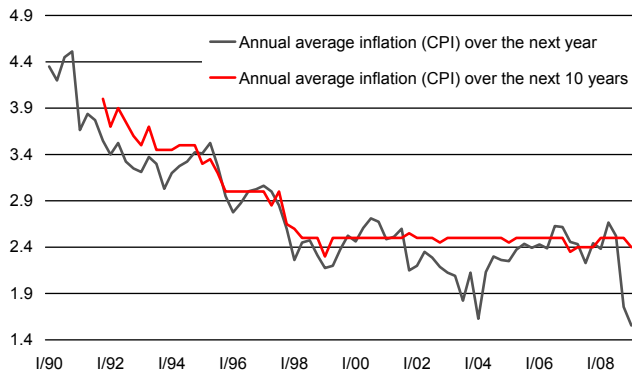
Source: Bloomberg, UniCredit Research

Analysts who fear a spike in inflation rates assume inflation expectations will rise strongly as soon as the economy has stabilized on a lasting basis. In their view, the exploding federal debt in conjunction with the ballooning Fed balance sheet has laid the foundation for such a development. While this danger cannot be dismissed out of hand, it must, however, be stated that in the last ten years the medium-term inflation expectations of investors and analysts were very firmly anchored. Admittedly, the current situation is without precedent in past decades, so we could be seeing a structural break in expectations. However, *ex ante* one could have said the same about an oil price of USD 150 USD pb. But a glance at the preceding and following chart reveals that medium-term inflation expectations have virtually not reacted at all to the surge in the oil price, which peaked in July 2008. An important trump card here was the credibility of the Federal Reserve.

¹ 5Y implied forward rates are derived from forward contracts that after five years give the buyer the right to buy 5Y Treasuries.

PROFESSIONAL INFLATION EXPECTATIONS FIRMLY ANCHORED FOR MORE THAN TEN YEARS

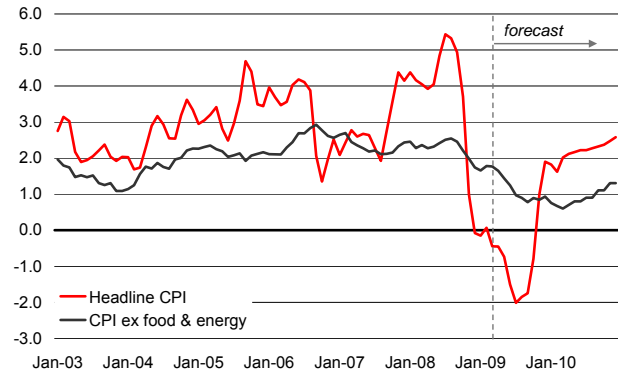
Inflation expectations in %



Source: Survey of Professional Forecasters, UniCredit Research

UNICREDIT INFLATION FORECAST

In %, y-o-y



Source: BLS, Thomson Datastream, UniCredit Research

The Fed must be transparent

At the moment, the inflation outlook of the Federal Reserve is in line with our expectations. During his most recent testimony before Congress, Fed Chairman Bernanke said that *"inflation will remain low. Indeed, given the sizable margin of slack in resource utilization and diminished cost pressures from oil and other commodities, inflation is likely to move down some over the next year relative to its pace in 2008."* Bernanke mentioned the slight increase in inflation expectations as a positive and considers it protection against excessively low inflation rates.

As soon as the US economy shows increased signs of a sustained recovery, the Fed will have to scale back the degree of monetary policy support. It undoubtedly has the means to do so.² The key now is to find the correct timing. In that process, the Fed should show maximum transparency so that market participants can assess the further moves and maintain their confidence in the US central bank. Then, Bernanke & Co should succeed in continuing to keep inflation expectations in check. In such an environment, we expect the core rate to fall to ¾% by the beginning of 2010 (cf. chart next column). The headline inflation rate will probably fall to -2% by mid-year, but by the end of the year it will already be back at +1¼% again. The backdrop is the leveling off of the negative basis effect of falling energy prices. Furthermore, prices of commodities in general are expected to rise again as soon as the recession is over.

² See: H. Bandholz, *US central bank: Where's the exit please?*, Friday Notes, March 27, 2009.

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US loan demand slows, terms stiffen & money growth ebbs

- The Fed's quarterly survey of senior loan officers showed further tightening of lending standards and shrinking of loan demand by businesses, real estate developers, and households.
- The latest hard loan data echo this pattern. So do the money supply figures, which show slower growth, and the Fed's weekly balance-sheet maneuvers, which net out to almost no change since the rapid build-up in assets during the market meltdown last fall.
- The implication is that the Fed is becoming more relaxed about conditions in the financial markets and is not aggressively seeking to juice up the money supply or to undertake a new round of large-scale purchases of commercial paper or other private sector credits.
- Even the much ballyhooed Term Asset-Backed Securities Lending program, TALF, has barely gotten off the ground. However, this week the Fed formally announced expansion in the TALF to include commercial real estate mortgage-backed securities, CMBS. That may spur a new group of participants soon to decide to sign up.

Bankers report further tightening in lending standards but slack demand

The Federal Reserve released its latest quarterly "Senior Loan Officer Opinion Survey on Bank Lending Practices." The results can easily be summarized:

1. Lending standards for commercial and industrial loans are already strict, so about three-fifths of the 52 domestic banks responding to the Fed survey report they have left them unchanged. Of the remainder, only a couple are tightening standards "considerably." The rest are tightening them "somewhat" further. However, the cost of credit lines has been raised by two-thirds of the banks. And lending spreads have been widened by more than three-quarters of them. Implication: banks are ready to lend, but customers have to meet more stringent conditions and pay higher fees and interest rates. Why are banks still toughening up? Everybody cites the weak economy. Almost all cite "industry-specific problems" (such as plunging real estate values or the ailing auto industry). Most admit their banks have a diminished tolerance to take risks. But only a minority says it is because their institutions are capital constrained. And a mere handful cites deterioration of their banks' liquidity positions.
2. Demand for commercial and industrial loans is sinking, report two-thirds of the responding banks. The reasons behind the shrinkage of loan demand essentially track all aspects of a recession. They include lower inventory financing needs, hardly surprising since firms in every sector of the economy are drastically cutting inventory investment; lower accounts receivable financing; a universal plunge in business capital expenditures; and less merger & acquisition activity to fund. What is not important, say the bankers, are customers flocking to non-bank competitors offering better lending terms. Almost nobody sees that happening.
3. Conditions are not much better in the commercial real estate sector. In past Fed lending surveys, terms on commercial real estate loans were tightened sooner and more aggressively than any other market segment. Two-thirds of the banks continue to impose tougher terms; only a third reports no change, and nobody is easing lending standards. As for the demand for loans, almost three-quarters report moderate or substantial contraction in demand, not surprising given the progressive weakening of office, retail, and other types of commercial real estate development throughout the country.
4. Things are improving in the residential mortgage business, however. Half of the respondents are tightening standards for prime borrowers. But about half actually are experiencing an increase in mortgage demand, while only 15% report a decline in demand. There is even a small increase in demand from the riskier segments, so-called "alt-A" and "jumbo" mortgages. Half the bankers are also taking a tougher stance with respect to home equity lines of credit. Like the primary mortgage market, demand for home equity lines of credit is mixed. About half the respondents see weaker demand, while about 20% of the banks are experiencing stronger demand for this type of credit (which is frequently used to finance purchases of autos and home improvements, or even children's college expenses).
5. Consumer lending standards – for credit cards, student loans, and auto loans – are getting a little tougher, but rather selectively. For example, for consumer installment loans, almost all respondents report unchanged lending standards. But for credit card lines, more than half report tighter terms and approval standards. And most of the bankers say that they have lowered lines of credit, established higher interest rates, increased fees, and imposed stricter payment conditions. These developments have not gone unnoticed. US Senator Charles Schumer of New York has been critical of the Federal Reserve for not giving greater urgency to a promised study of credit card lending abuses that Congress has demanded. He rebuked Fed Chairman Bernanke on this matter at this

week's Joint Economic Committee meeting (Schumer is the vice-chairman of the group).

6. Finally, the Fed asked some special questions about lending standards for financing international trade and got some interesting differences between US-chartered banks and branches of foreign banks operating in the US. Of the 52 US banks in the survey, only two-thirds finance exports and imports. Most have tightened lending standards over the preceding three months. All cite recessions here and abroad as the main reason. Many report greater concerns about problems in individual countries and troubled industries. Nearly all say their banks have reduced tolerance for taking risk. And three-quarters report lessened demand for trade financing.

Now compare these responses to those of foreign-headquartered banks. Eighteen of twenty-two (i.e. over 80%) in the sample are typically involved in trade financing. A little over half have been tightening lending standards in this area. All cite the worsening global economic situation. But several foreign banks, unlike US counterparts, cite a deterioration of the parent banks' capital or liquidity positions as a reason for tightening standards. And all are worried about foreign country risk. As for the demand for trade financing, the responses were neatly balanced: while most said it was unchanged, half the rest saw declines but the other half actually reported increases. In sum, foreign banking institutions, traditionally more internationally-active than most US banks, seem to be better positioned to take advantage of lending opportunities, even in a worldwide economic slowdown that has been disproportionately bad for international trade.

The opinions of bank lending officers are not just snapshots of current market conditions. They often give valuable clues as to future financial conditions and the availability of credit to various sectors of the economy. What is unique in the Fed's April survey is that almost every banker, whether from a US or a non-US institution, believes that the credit quality of their bank's existing loan portfolios will continue to deteriorate in the period ahead. Taken at face value, these responses are consistent with the recession for at least several more months, if not longer.

Money supply oscillates wildly, while credit growth tapers off gradually

Money supply growth peaked in the last few months of 2008, as the Fed ratcheted up its balance sheet to provide direct support to particular segments of the financial system. Monthly movements in money growth can fluctuate widely and can differ sharply for any particular month for different definitions of money. The bottom line is that annualized growth rates have been more volatile in the past six months

than at any other time since records have been kept. For M1, the range has been between +56.7% and -16.4%; for M2 between +26.0% and -3.0%.

What has accounted for these astonishing fluctuations? Three factors: wide swings in checkable deposits, big increases in small time deposits (in M2, not M1), and unusual volatility in money market mutual fund investments (also solely in M2). These are the monetary manifestations of the often-cited surge in risk aversion, further enhanced by the decision of the Federal Deposit Insurance Corporation to insure bank deposits without limit last fall. That made it unnecessary even for sophisticated investors to personally evaluate the creditworthiness of individual banks or to go through the hassle of distributing their capital protected short-term assets across a number of banks. This far-reaching change in the familiar rules of the game had an immediate impact on depositor behavior. For the various measures of the monetary aggregates, the effects were electrifying, but not necessarily influential on the overall economy.

What has been more relevant for the economy has been the behavior of bank credit decisions. Since end-September 2008, with one exception – deposits at the Fed (otherwise known as excess reserves, which have exploded) – most channels of credit creation have shown modest growth or small declines: especially lending to securities dealers. There certainly was no across-the-board retrenchment in outstanding credit. But getting new loans became increasingly difficult as banks preferred the safety of the Fed or US Treasuries to securitized assets or conventional loans.

BANKS IN THE US: ASSETS ROSE, BUT ONLY SLOWLY, AS THE CREDIT CRUNCH UNFOLDED

<i>Selected categories USD bn</i>	22 Apr 09	Sep 08	Mar 08
Total assets	12075	11330	11173
Securities	2627	2538	2554
Loans & leases			
Commercial & industrial	1514	1537	1480
Real estate	3798	3660	3659
Consumer	876	854	818
Security	194	327	301
Interbank loans	448	469	445
Cash assets (mostly at Fed)	1096	372	310
Other assets	1058	1036	1010

Source: Congressional Budget office, UniCredit Research

Fed's balance sheet levels off as extreme risk aversion subsides

Chairman Bernanke gave a brief "on the one hand, on the other" review of signs of tentative improvement in financial

market conditions to the members of Congress who belong to the Joint Economic Committee. Here is what he said:

“Among the markets that have recently begun to function a bit better are the markets for short-term funding, including the interbank markets and the commercial paper market. In particular, concerns about credit risk in those markets appear to have receded somewhat, there is more lending at longer maturities, and interest rates have declined. The modest improvement in funding conditions has contributed to diminished use of the Federal Reserve's liquidity facilities for financial institutions and of our commercial paper facility. The volume of foreign central bank liquidity swaps has also declined as dollar funding conditions have eased.”

A quick look at the changes in the Fed's balance sheet substantiates his conclusions. The table below shows the situation today, as compared to the composition of the Fed assets and liabilities back in December 2008, when total assets peaked, and June 2007, before the crisis broke out.

FED BALANCE SHEET REACTS TO MARKET MOOD SWINGS

<i>Selected categories USD bn</i>	End-April 2009	17 Dec 2008, asset peak	End-June 2007
Reserve bank credit	2050	2239	851
Securities	983	494	790
US Treasuries	549	493	790
Govt Agencies	68	18	20
Mortgage-backed	366	0	0
Repos	0	80	20
Term auction credit	404	448	na
Other Loans	101	207	0.1
Commercial paper funding facility	182	319	na
Maiden Lane LLC (Bear Stearns)	26	27	na
Maiden Lane II, III (AIG)	46	40	na
Central bank swaps	250	583	0
Other assets	58	27	44
Liabilities	2021	2267	836
Currency	863	841	775
Reverse repos	67	71	30
Deposits	1078	1287	20
Bank reserves	813	802	16
Treasury, genl a/c	63	120	4
UST, supplementary	200	364	na
other	14	67	10

Source: Federal Reserve, H-4.1 report, UniCredit Research

Here is what has happened since the beginning of the crisis in mid-2007: The Fed sharply reduced its traditional holdings of US Treasury obligations, almost completely eliminating Treasury bills from its portfolio and thus accommodating the shift toward diminished risk tolerance of the banks. The Fed

introduced a number of programs to provide increased liquidity to the banks, notably the Term Auction Facility. It also introduced programs that directly supported particular sectors of the financial system, especially the commercial paper market and the mortgage-backed securities market. The Term Asset-backed Securities Lending Facility, TALF, was meant to extend this approach into other segments by reviving securitization. The new program has not been particularly attractive to market participants yet (only about USD 20 bn in originations so far, a very long way from the USD 1 trillion announced upper limit). But the Fed chairman still sounds optimistic about its potential, following announcement this week of its extension into the field of commercial mortgage-backed securities.

Since December 2008, the commercial paper market has begun to unthaw, and the Fed's holdings have declined accordingly. The shortage of dollars in world interbank markets has also subsided although some central banks are still making use of the swap facility (presumably the Bank of Mexico among them). But the Fed remains resolved to support the residential mortgage-backed securities market and the GSEs (Fannie, Freddie, and the Federal Home Loan banks).

Finally, the heavily-publicized decision of the Fed to start a systematic program of purchases of longer-term US Treasury notes and bonds has been implemented gingerly, even unenthusiastically. We have long felt the Fed has no intention of pegging any particular level of US Treasury yields. After this week's FOMC meeting, the Fed blandly stated that it “will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of financial and economic developments.” It did not promise to buy more long-term Treasuries. Those market participants who had convinced themselves that a major effort would be made to hold down long-term Treasury yields were sorely disappointed, as the yield on 10-year US Treasury notes subsequently climbed above 3.20% without encountering any resistance from the Fed.

US bond and stock market participants alike are now more confident that financial fragility is diminishing and that the credit crunch will gradually ease. But no consensus has emerged on how vigorous an economic recovery might be. Bernanke's JEC testimony suggested that the Fed is tilting toward a more modest recovery than its previous published forecasts suggested. If that note of caution is accurate, it could limit the further advance of equity prices but temper the sell-off of long-term Treasuries.

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Germany: The ugly picture in the rearview mirror

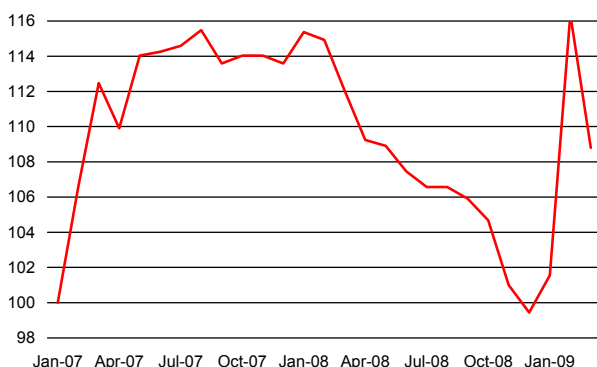
- The auto sales numbers released this week for March showed a surprising decline – despite the strong boost to demand as a result of the scrapping premium. Moreover, the numbers fly in the face of survey readings and auto registrations.
- Hence, we have revised our GDP forecast for Q1 2009 down further (from -2½% to -3½%). Even a minus of 4% cannot be excluded. The German economy would, therefore, have contracted at the fastest rate ever. For 2009 as a whole, this produces -5.8%.
- The recession will continue in the next few months. But the negative momentum in the second quarter should already be substantially smaller. We expect the recession to end in the fall of 2009.

The auto conundrum

The auto sales reported this week for March were an absolutely negative surprise. According to numbers released by Deutsche Bundesbank, auto sales were down roughly 6½% m-o-m (see chart). In February, auto sales had still surged more than 14%.

UNEXPECTED SETBACK IN MARCH

Auto sales (nominal; January 2007=100)



Source: Feri, UniCredit Research

The latest setback flies in the face of other numbers released for March:

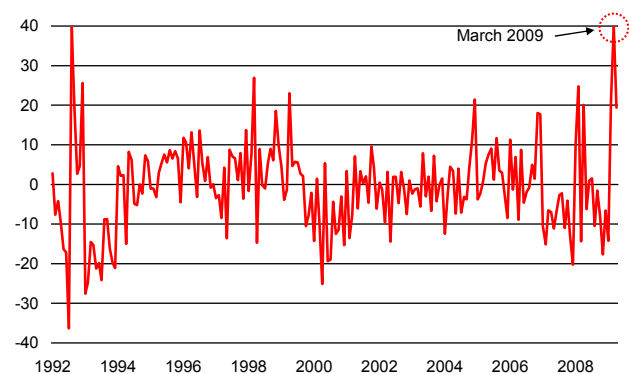
- Applications for the scrapping premium rose more than half a million within a few days. The "buying frenzy" was triggered by concerns that the EUR 1.5 bn earmarked by the federal government for the premia would not be

enough³. A short time later, the Grand Coalition increased the volume of the program to EUR 5 bn.

- New car dealers' inventories fell to the lowest level since German reunification. This is indicated by surveys conducted as part of the ifo business climate index.
- Auto registrations also posted an unusually strong increase (see chart). At +40% y-o-y, March saw the highest y-o-y increase since summer 1992. In April, the rate of increase then halved to 20%.

REGISTRATIONS SKYROCKETING

Auto registrations, in % y-o-y



Source: Feri, UniCredit Research

Even though the reasons for the decline in "official" auto purchases are unclear, the implications for GDP in the first quarter are obvious. In conjunction with falling retail sales, they meant a further major drag on the economy at the beginning of the year. So far, we had assumed that – triggered by the positive effects of the scrapping premium – at least private consumption expenditures could dampen the decline in GDP. This assumption is no longer tenable. We therefore lowered our forecast for the first quarter further from -2½% to -3½%. The official GDP number will be released next Friday in the form of a Flash Estimate. If our forecast proves correct, the German economy will have contracted at the strongest pace ever within a three-month period. The biggest setback so far was recorded at the beginning of 1987 (-2½%). At the time, an exceptionally harsh winter resulted in production shortfalls in the construction sector.

³ See Economic Special, The German car shopping frenzy, April 2.

Poorer Q1 – Better Q2

As paradoxical as it may sound, the even stronger setback at the beginning of the year has improved the odds for a better second quarter. There are three reasons for this. First, the higher auto sales should be posted in Q2. This will bolster private consumption expenditures. Second, the bad weather was a burden for the construction industry at the beginning of the year – similar to the situation in 1987. In spring, the production shortfall should be made up again. Third, the recently reported numbers for new orders and exports point to a slowdown in the economy's rate of contraction. For that reason, we project GDP will contract by "only" ½% in the second quarter. For 2009 as a whole, that produces negative growth of 5.8%. So far, we had assumed -5%. Immediately after the summer break, the recession should continue. However, from fall onwards, there will probably be clearer signs of the German economy stabilizing. This is suggested by forward-looking leading indicators that have improved recently. Above all, the cutting of inventories by companies is already far advanced. A small demand impulse would, therefore, be enough to jumpstart production again in the second half of the year. Moreover, the second stimulus package will probably start to have an impact.

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Data Monitor Europe - Preview of the coming week

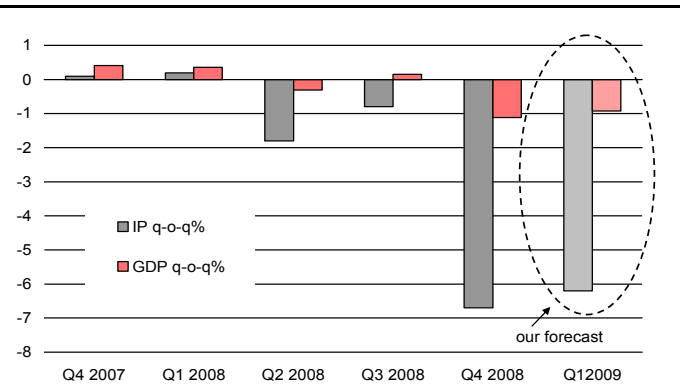
Monday, May 11

FRANCE, INDUSTRIAL PRODUCTION

March	MIB	Cons.	Feb	Jan
In % m-o-m	-0.1	-0.5	-0.5	-3.9

The adjustment of industrial production to the sharp contraction in orders and excess of inventories continued to unfold unabated at the beginning of the year. Nevertheless, following a 6.4% drop on a cumulated basis up to February, we expect that industrial production will eventually show a broad stabilization in March. This would leave Q1 production down 6.2% (vs. -6.7% in the fourth quarter), pointing to a further drag of production activity on GDP growth.

UNABATED RECESSION IN INDUSTRIAL ACTIVITY



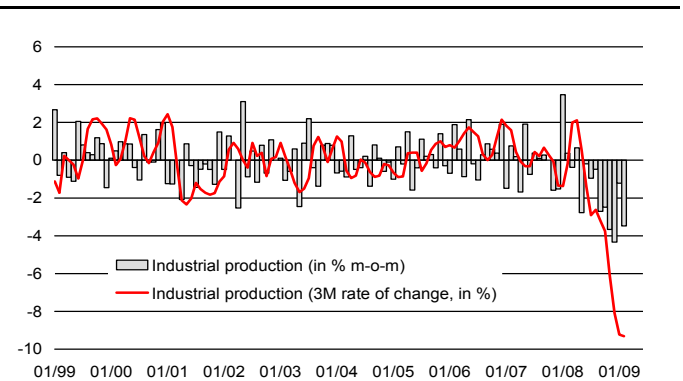
Source: INSEE, UniCredit Research

ITALY, INDUSTRIAL PRODUCTION

March	MIB	Cons.	Feb	Jan
In % m-o-m	-2.0	-2.0	-3.5	-1.2

Industrial production in March is likely to have declined by 2%. Business surveys suggest that firms are in destocking mode and new orders have started to contract at a slower pace, although remaining at very depressed levels. We expect the industrial recession to start softening in the coming months.

INDUSTRIAL PRODUCTION KEEPS FALLING



Source: Istat, UniCredit Research

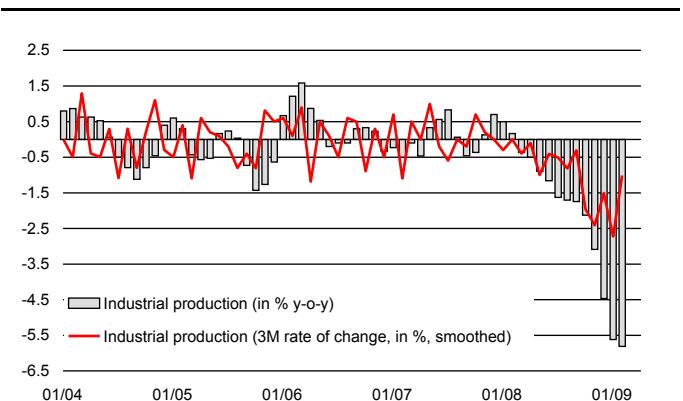
Tuesday, May 12

UK, INDUSTRIAL PRODUCTION

March	MIB	Cons.	Feb	Jan
Total, in % m-o-m	-1.0	-0.7	-1.0	-2.7
Manufacturing, in % m-o-m	-1.0	-0.8	-0.9	-3.0

Surveys of factory activity were mixed for March, with the CBI still in free fall and the PMI marking a noticeable rebound. We expect industrial production to continue to contract unabated in March: total and manufacturing production should have been down 1.0% m-o-m. These numbers would be consistent with a 5.6% q-o-q contraction in production as reported in the first release of Q1 GDP. However, we expect the pace of manufacturing recession to ease starting from April.

INDUSTRIAL PRODUCTION: CLOSE TO THE BOTTOM



Source: ONS, UniCredit Research

Wednesday, May 13

EMU, INDUSTRIAL PRODUCTION

March	MIB	Cons.	Feb	Jan
In % m-o-m	-1.0	-1.2	-2.3	-2.5

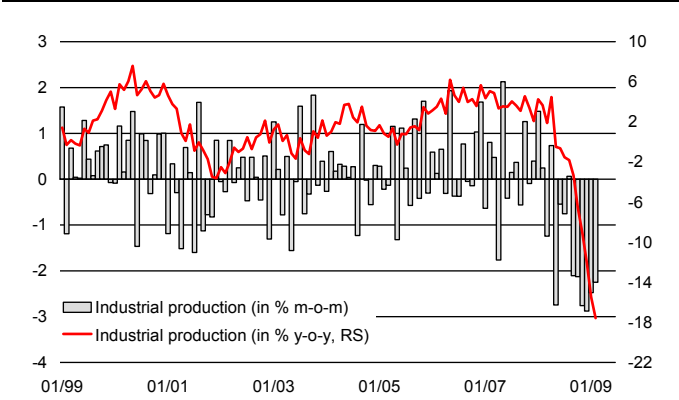
We expect a further contraction of eurozone industrial production, albeit at a slower pace (we pencil in -1.7% vs. the previous -2.3%). This will close an uglier-than-expected Q1 2009. Survey evidence that stock depletion proceeds unabated while new orders are falling less rapidly suggests that the industrial recession will ease further in April.

FRANCE, CONSUMER PRICES

April	MIB	Cons.	Feb	Jan
In % y-o-y	0.1	0.2	0.3	0.9

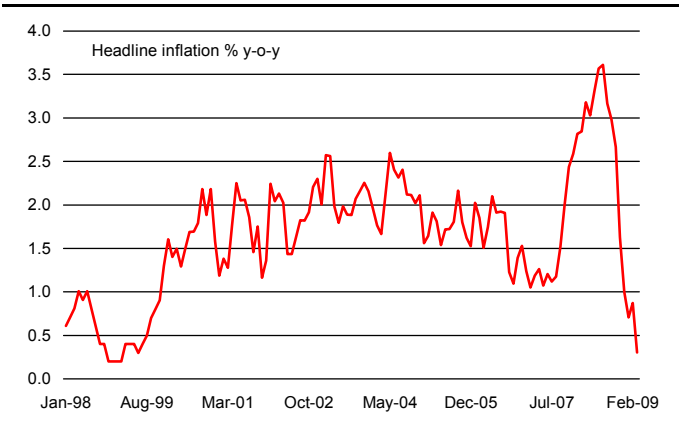
France's consumer inflation should ease further in April to 0.1%, quickly approaching the zero threshold. The deceleration should be explained by a cut in utility bills (particularly for natural gas), largely offsetting the monthly pick-up in the price of motor fuel and heating oil costs. Moreover, food inflation will probably continue to ease. The unwinding of the Easter effect will presumably temporarily lift core inflation by 0.1 pp to 1.7%.

A QUARTER TO FORGET



Source: Eurostat, UniCredit Research

QUICKLY APPROACHING THE ZERO THRESHOLD



Source: INSEE, UniCredit Research

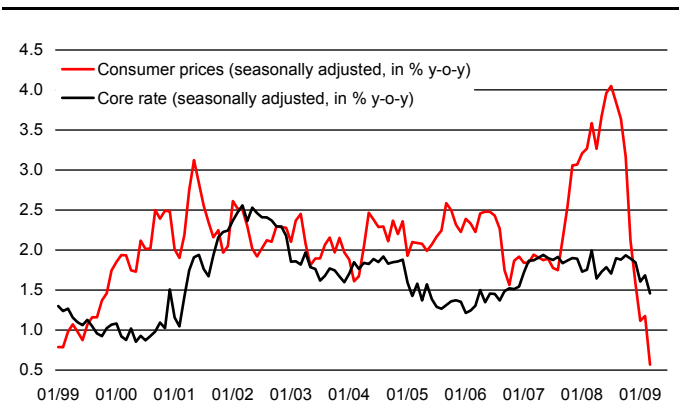
Friday, May 15

EMU, CONSUMER PRICES

April	MIB	Cons.	Mar	Feb
n % m-o-m	0.4	0.4	0.4	0.4
In % y-o-y	0.6	0.6	0.6	1.2

The final release of the April CPI should not deliver major surprises and we confirm our forecast for a temporary halt at 0.6%, with risks tilted toward an upward revision. Core inflation is likely to post a small technical rebound, energy inflation should be roughly stable, while food inflation probably continued to ease. The disinflation process will resume in May.

DISINFLATION TAKES A PAUSE



Source: Eurostat, UniCredit Research

EMU, GDP (PRELIMINARY)

Q1 2009	MIB	Cons.	Q4	Q3
ln % q-o-q	-2.1	-2.1	-1.6	-0.2

We see Q1 GDP contracting by 2.1% q-o-q vs. -1.6% in Q4 2008. The plunge in industrial production, due to falling exports and investment, drove most of the decline. We expect Q1 to be the trough of the recession: the rise in business surveys in April suggests that Q2 will likely be characterized by a smaller pace of contraction.

FRANCE, GDP (PRELIMINARY)

Q1 2009	MIB	Cons.	Q4	Q3
ln % q-o-q	-1.2	-1.3	-1.1	0.1

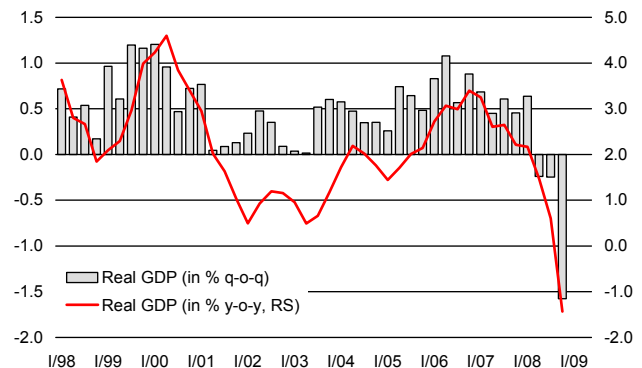
Worse-than-expected trade balance data for March suggested net trade contributed less favorably than originally assumed to Q1 GDP growth, as imports were more resilient, not least because of higher energy imports. In light of these numbers, we have therefore revised down our GDP forecast to -1.2% q-o-q vs. -0.9% q-o-q previously pinned down. IP data (out on May 11) will help us to better assess the balance of risks associated with our forecast.

ITA, GDP (PRELIMINARY)

Q1 2009	MIB	Cons.	Q4	Q3
ln % q-o-q	-1.8	-1.7	-1.9	-0.7

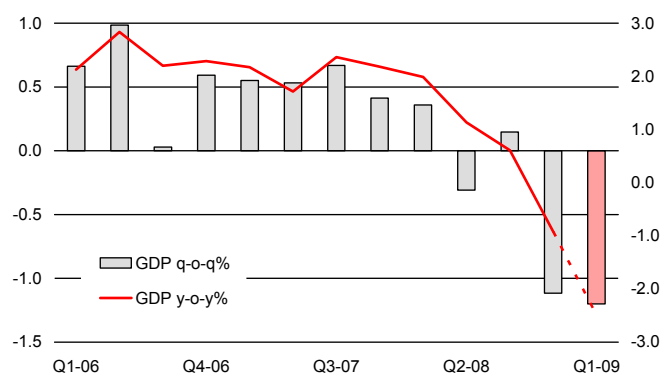
Q1 GDP is likely to have contracted by 1.8% vs. the -1.9% q-o-q recorded at the end of last year. The drop in investment, particularly in machinery, and exports should be the main driver of the plunge. The worst is likely to be over: Q2 will probably be characterized by a milder pace of contraction.

THE WORST SHOULD BE OVER



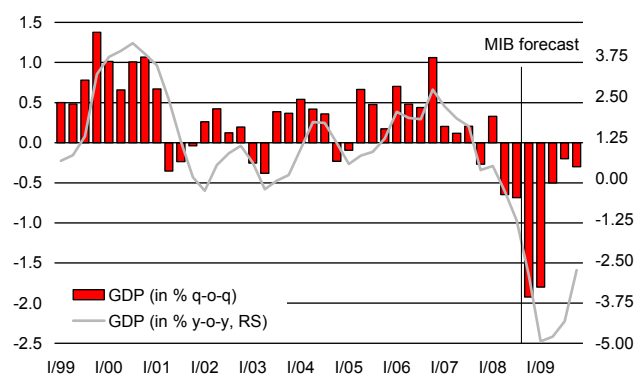
Source: Eurostat, UniCredit Research

CLOSE TO Q4 GDP



Source: INSEE, UniCredit Research

ANOTHER BAD GDP REPORT



Source: Istat, UniCredit Research

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Data Monitor US - Preview of the coming week

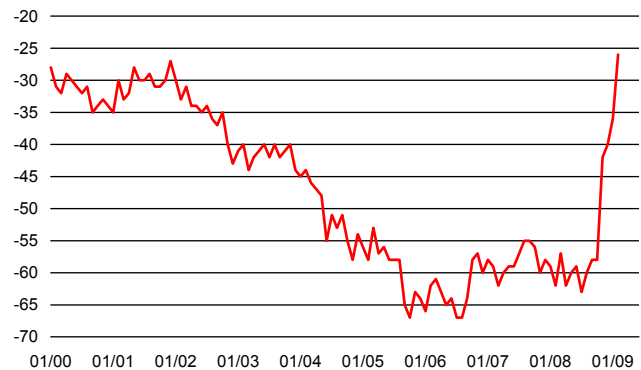
Tuesday, May 12

TRADE BALANCE

March	MIB	Cons.	Feb	Jan
in USD bn	-30.0	-29.1	-26.0	-36.2

Imports nosedived as the US recession deepened but a run-up in commodity prices during March probably ended the sharp decline. US exports are also likely to have posted a mild decline, as suggested by the sharp fall in output of several industrial products that are disproportionately shipped abroad. The net result was likely a modest increase in the trade deficit, after several months of sizable improvement.

RECESSIONS TRIM CHRONIC US TRADE DEFICITS



Source: Thomson Datastream, UniCredit Research

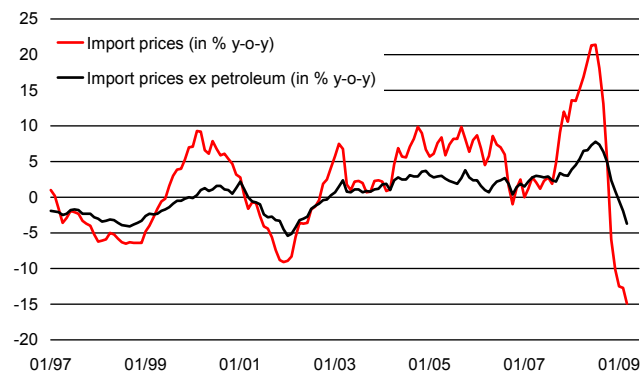
Wednesday, May 13

IMPORT PRICES

April	MIB	Cons.	Mar	Feb
in % m-o-m	0.2	0.4	0.5	-0.1
in % y-o-y	-14.0	-	-14.9	-12.7

Petroleum prices, which had rebounded in the previous two months, were little changed on balance in April. Non-petroleum prices were lifted as some industrial commodities headed higher (especially copper). Manufactured goods probably were flat. On balance, the import price index probably went up slightly. By contrast, the export price index likely declined further, however, as agricultural markets softened.

MILD UPWARD PRESSURES ON WORLD PRICES



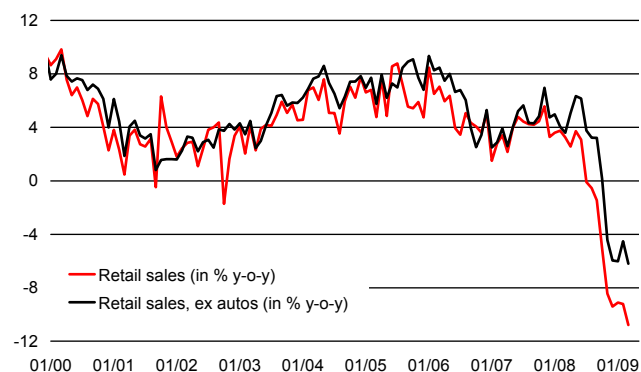
Source: Thomson Datastream, UniCredit Research

RETAIL SALES

April	MIB	Cons.	Mar	Feb
in % m-o-m	0.1	0.0	-1.2r	0.4

Automakers cited poor sales results for April, a month in which the news was full of scary stories of impending bankruptcies among their ranks. (In fact, Chrysler did file for Chapter 11 protection as the month ended.) Otherwise, the shopping malls did reasonably well, despite the inclement weather, probably a result of last-minute shopping before an exceptionally late Easter holiday.

WEAK AUTO SALES OFFSET BY LATE EASTER SHOPPING



Source: Thomson Datastream, UniCredit Research

Thursday, May 14

PRODUCER PRICES

April	MIB	Cons.	Mar	Feb
Headline, in % m-o-m	0.0	0.1	-1.2	0.1
Core rate, in % m-o-m	0.0	0.1	0.0	0.2

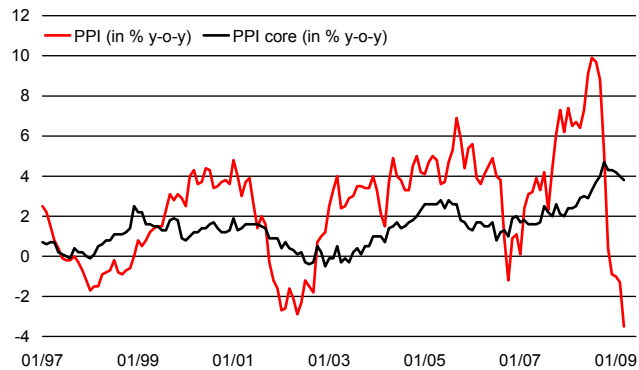
The PPI has shown far greater volatility lately than other measures of US inflation. The global recession has made it difficult for US firms to raise prices. But some individual industries have shown the effects of aggressive efforts to reduce inventories. Assuming inventory destocking tapered off in April, finished goods prices were likely unchanged.

INITIAL JOBLESS CLAIMS

May 9	MIB	Cons.	May 02	Apr 25
in thousands	625	635	601	631

Layoffs have eased slightly in recent weeks. The four-week moving average has settled back to about 635k. But the number of unemployed workers receiving benefits has climbed to nearly 6.3 mn, up 3 ½ mn since the beginning of the recession in December 2007. That is a far greater proportional increase than in any of the previous post-World War II recessions. It shows clearly that hiring is being tightly restrained by businesses.

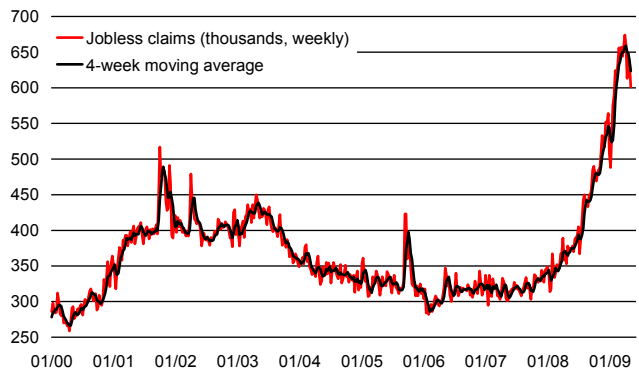
STABLE PRICE TREND IS EVIDENT AT THE PRODUCER LEVEL



Source: Thomson Datastream, UniCredit Research

LABOR MARKET REMAINS UNDER STRESS

In thousands



Source: Thomson Datastream, UniCredit Research

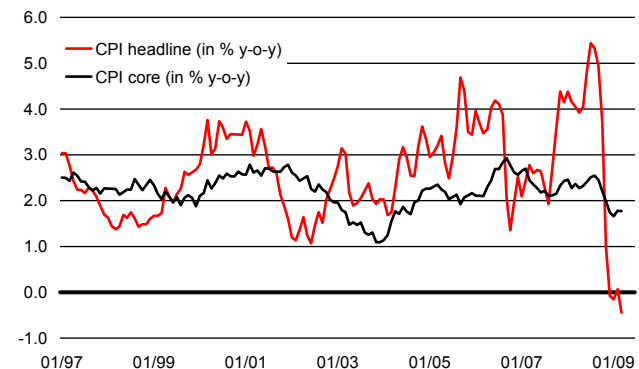
Friday, May 15

CONSUMER PRICES

April	MIB	Cons.	Mar	Feb
Headline, in % m-o-m	-0.1	0.0	-0.1	0.4
Core rate, in % m-o-m	0.0	0.1	0.2	0.2

Recessions make it increasingly difficult for companies to raise prices. That is going to be increasingly apparent in the consumer price index. To be sure, the US Energy Department reported mildly higher gasoline prices during April, but the rise was probably less than the seasonal factors used by the Bureau of Labor Statistics in computing the CPI anticipate.

CPI INFLATION IS GRADUALLY SUBSIDING



Source: Thomson Datastream, UniCredit Research

INDUSTRIAL PRODUCTION & CAPACITY UTILIZATION

April	MIB	Cons.	Mar	Feb
Industrial production, in % m-o-m	-0.5	-0.5	-1.5	-1.5
Capacity utilization in %	68.9	68.9	69.3	70.3

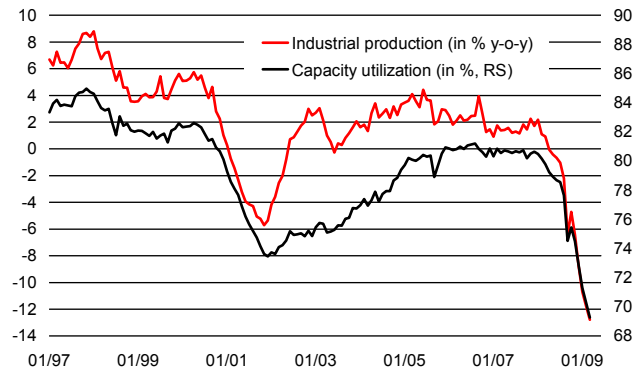
Reductions in jobs and hours worked in manufacturing point to another decline in industrial production during April. But utilities almost certainly produced more energy than usual because of the cold, dreary weather that forced tens of millions to keep heating their houses. The net result will probably be a moderate decline in the Fed's industrial production index.

CONSUMER CONFIDENCE – UNIVERSITY OF MICHIGAN (PRELIMINARY)

May	MIB	Cons.	Apr	Mar
	68.0	64.0	65.1	57.3

The University of Michigan consumer survey usually is more influenced by stock market developments than some of the other consumer sentiment polls. With the market as well as both the Fed and the White House now anticipating an imminent end to the recession, the still lousy job market carries less weight.

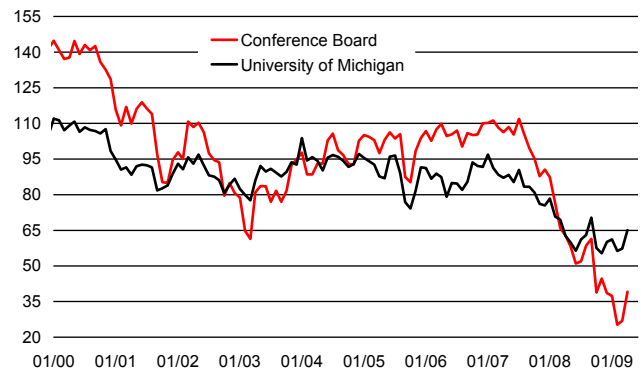
WEAK MANUFACTURING BUT UTILITIES KEEP PRODUCING



Source: Thomson Datastream, UniCredit Research

SENTIMENT BUOYED BY HIGHER STOCK MARKET

Consumer confidence index



Source: Thomson Datastream, UniCredit Research

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US Review

Another productive recession?

Do US firms manage their businesses better in recession than in expansions? That's what the numbers suggest. The first quarter real GDP figures, subject to substantial revisions in the next two re-estimates, told us that the economy shrunk by another 6% per annum. But output per worker hour in the non-farm business sector actually rose by 0.8%. In the preceding quarter, output per hour declined, but only by 0.6%. So in the past six months, in which real output in the non-farm business sector sank by 8.5% p.a., productivity improved. It was not by much, but any improvement is quite an accomplishment, given all the stresses and strains that businesses face coping with sharp declines in demand and limited or non-existent pricing power. How did they do it? The answer is clear: by slashing labor input. In Q1 2009, output in the non-farm business sector plunged by 8.2% p.a., but hours worked dropped by 9.0%. That is similar to the prior quarter when output fell 8.8% and hours worked dropped by 8.3% p.a. Ironically, unit labor costs continued to go up as firms found it easier to lay people off than to trim the compensation of those who continued to be employed. In Q1 2009, unit labor costs rose 3.3%, just slightly slower than the 5.7% increase in last year's final quarter. This is not the first recession in which productivity improved, either. It has been true in both the previous two recessions. Perhaps part of the explanation is that business downturns force management to focus more conscientiously on costs. Or is it that the stock market demands more determined cost control?

Pending home sales up, a positive sign

The National Association of Realtors reports on existing home sales by collecting data from their members, the real estate brokers who negotiate the deals. They have always reported sales on a "closing" basis. A "closing" is when the buyer sits down with the seller (or their lawyers do it), pays the money, and collects the keys. By comparison, the Census Bureau has always reported new home sales on a "contract" basis. That is when buyers sign a legal sales contract committing them to a deal, subject to their being able to get a mortgage of a particular amount. There are problems with both measures. Many contracts for new home sales fall through, especially during housing slumps such as the one the US has experienced since 2006. Estimates put failed contracts as high as 30%, mostly because the buyers aren't able to get a mortgage loan but often because they simply pay a break-up fee and walk away as home prices continue to slide. Regrettably, the Census Bureau does not revise home sales data to take account of that reality. The different NAR version has a problem of its own. There is often a substantial delay from contract signing to closing, ranging from weeks to months, associated not only with

securing a mortgage but also with verifying legal title, getting home insurance, and getting inspections for such potential deal-breakers as the presence of termites or asbestos. But the economic decision to buy the house is pivotal, signified by the contract signing, not the closing. So some years ago, the NAR did a smart thing: introduced a new series, the Pending Home Sales index, PHSI, which essentially replicates the Census Bureau's methodology. It has been very successful in indicating ahead of time where the long-established existing home sales data will be going a month or two ahead of time. As a result, the stock market is right in reacting positively, as it did this week, to the report that the PHSI went up by 3.2% in March, the second increase in a row. The level is nothing to be excited about; it is still below January's. But the year-over-year change is now positive. To be sure, many sales of existing homes reflect transactions in deeply-discounted foreclosed properties, in the wake of the big increase in home foreclosures over recent months. But at least there is confirmation that there are buyers capable of stepping in to take advantage of depressed home prices. That is the first step toward a stabilization of the housing slump, a necessary condition for a self-sustaining economic recovery.

Job market is weak but there is at least one hopeful leading indicator

Every week, the Department of Labor releases three important pieces of information about the state of the labor market. Most familiar are initial claims for unemployment compensation. Less familiar are continued claims. Least is the insured unemployment rate. Each carries a specific message. Initial claims are a leading indicator, one of the best. They fell to 601k in the latest reporting week. They predict the recession will end in a few months. Continued claims are a contemporaneous indicator. Its rise of 56k to over 6.35mn tells us hiring is still weak, and the economy is still in recession. The insured unemployment rate, now up to 4.8%, is also a contemporaneous indicator but tends to be correlated with the overall unemployment rate (higher because many newcomers to the labor market are not yet eligible to collect unemployment benefits). Leading indicators tell direction, but contemporaneous indicators say something about depth. This is a deep recession but will likely end sooner than many fear.

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Fixed Income Outlook

- Over the last few weeks, investors seemed to be leaning on the positive side. The BoE increased the size of the asset purchase program by GBP 50bn to GBP 125bn, while the ECB surprised markets by announcing the decision to start buying covered bonds from June.
- Given investors' recent positive mood and the light data calendar, we expect bonds to remain moderately on the offer side next week.

Enjoy a quiet week after the storm

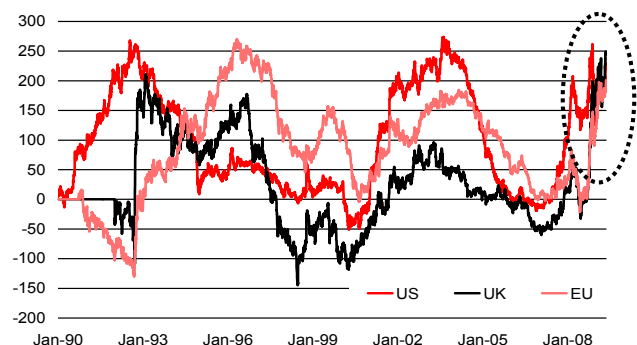
Over the last few weeks, investors seemed to be leaning on the positive side. After months of disastrous data, we are getting signs that the pace of recession is slowing down. And investors are reading less negative news as positive news. However, it always depends on the perspective. The result is once again that stocks are rallying, credit spreads are tightening, commodity prices are on an upward trend, bonds on the offer side, the dollar and the Japanese yen on a downward trend and in the eurozone, a tightening of periphery vs. core.

And then came the central banks. First the BoE. We regarded an extension of the asset purchase program as likely; however, given the recent better-than-forecasted macroeconomic data, we expected the BoE to take a pause and evaluate the impact of the measures so far adopted. Instead, the BoE increased the size of the asset purchase program by GBP 50 bn to GBP 125 bn. In our view, this signals that the main target of the BoE's QE measures is the yield curve impact: indeed, after collapsing on the first QE announcement (March 5), yields at the 10Y maturity returned to the level at the beginning of March. This could have pushed the central bank to announce a further tranche of purchases. However, the announcement of a further extension of QE measures failed to have an impact on the long end of the curve and bonds at the long maturities remained under pressure. Nor can we deny that going forward there are risks of further pressure on the long end of the Gilt curve: aside from the recent bearish bond market environment, a great risk lies in the huge amount of supply the UK government plans to sell this year (GBP 220bn). The greater part of this amount will concentrate on the 7/15Y maturities. If at first sight this seems counterintuitive, as it will be less costly for the government to issue at the short end of the curve, our impression is that the government has concentrated much of the issuance where it expects demand to be more sustained. Indeed, investors have shown that they are more inclined to buying bonds with a maturity included in the BoE asset purchase program. And indeed, since the start of the BoE repurchase program, the bid-to-cover at the auction has registered an improvement

compared to the past averages. In 2008, the average bid-to-cover at auction was 1.83x, while YTD in 2009 the average is 1.92x, while if we calculate the bid-to-cover ratio at auctions starting from the beginning of March (announcement of the BoE repurchase program), we obtain 2.03x as an average, a little higher than in the past. All these considerations lead us to think that the BoE will likely extend further its asset purchase program in the months to come. On the ECB side, aside from cutting the refi rate by 25 bp to the historical low of 1.0%, narrowing the corridor to +/-75bp, and extending the maturity of unlimited funding to banks up to 12 months (as expected), the central bank surprised positively by announcing the decision to start buying covered bonds from June. It is not considered a QE measure by the ECB, as it raised the likelihood that the move will be sterilized. In addition, the volume announced (EUR 60bn) is a modest one. However, it still represents a step towards the adoption of extraordinary measures. And even more important going forward, the ECB has not ruled out extending purchases to other assets and it did not rule out further rate cuts, although it signaled that the present level is regarded as appropriate under the current circumstances. Following the announcement, the eurozone curve steepened to 202 bp, the highest level since inception of the EMU.

After this week's storm in the markets and after the US Non-ram-payrolls, next week will be quite light in terms of macroeconomic data and events. In the eurozone, the Q1 GDP and the final release of the April CPI are scheduled, with a limited market impact. Supply pressure will also be subdued. On the other side of the Atlantic, retail sales, industrial production and CPI figures are scheduled and they should reinforce the assessment that the pace of recession is gradually slowing. Given investors' recent positive mood and the light data calendar, we expect bonds to remain moderately on the offer side next week.

2/10Y SPREADS AT THEIR HISTORICAL MAXIMUM LEVELS



Source: Bloomberg, UniCredit Research

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Forex Outlook

- The extension of the asset purchase program by the BoE vs. a non complete adoption of QE measures by the ECB gave a boost to EUR-USD, EUR-JPY and EUR-GBP. A correction in the EUR-USD and EUR-JPY was seen late in the session on resurfacing risk aversion.
- Next week, the light calendar will favor range trading in the EUR-USD (1.32/1.36), while the British pound should remain under pressure, at least vs. the EUR.

It's all a question of QE ... or is it?

The key events of this week were the BoE and the ECB meeting and, last but not least, the US stress test results. Starting with the UK, the BoE increased the size of the asset purchase program by GBP 50 bn to GBP 125 bn. While we expected such a move, it came earlier than we penciled in, especially considering that the most recent data indicated a slowdown in the pace of recession. As recent evidence has shown, QE measures tend to hurt the currency as they represent unconventional measures of expansionary policy, while the non-adoption or a partial adoption of such measures tend to be followed by a currency appreciation. This pattern also worked in the sterling case when the BoE entered QE early in March, but looking at sterling's more recent dynamics its reaction has proved less homogenous. Sterling has appreciated mainly vs. the USD and the JPY, while remaining almost unchanged vs. the EUR and losing vs. all the other G10 currencies. In such a scenario, two issues must be taken into consideration:

1) Since the beginning of March, we have observed a general improvement in the market mood, with stocks rallying, credit spreads tightening and bonds on the offer side. As a consequence, the greenback, a safe-haven asset in the current crisis, has weakened vs. the entire FX G10 universe, with the exception of the JPY, which bears the brunt of a severe recession and deteriorating public finances.

2) Green shoots from the economy have started to appear and the UK has been no exception in this sense, with increasing signs that the pace of recession is gradually slowing down.

These considerations indicate that, while the implementation of the QE policy hit the currency via an expansionary monetary policy effect and this was reflected in the immediate reaction to the announcement, on a more medium term perspective, it is difficult to isolate the effect of the asset purchase program on the currency. Especially in the current environment where investors are still very vulnerable to bad news, on the one hand, but show increasingly improved expectations, on the other hand.

On the ECB front, aside from cutting the refi rate by 25bp to the historical low of 1%, narrowing the corridor to +/-75bp and extending the maturity of unlimited funding to banks up to 12 months (as broadly expected), the central bank surprised positively by announcing the decision to start buying covered bonds from June. This cannot be considered a QE measure, as the ECB raised the likelihood that the move will be sterilized. In addition, the volume announced (EUR 60bn) is a modest one. However, it still represents a step towards the adoption of extraordinary measures. Looking at the reaction of the EUR, markets interpreted the news as a non-complete adoption of a standard QE policy. The EUR-USD jumped above the 1.3450 resistance and the EUR-JPY broke the 133 threshold, but both corrected afterwards. The reaction was more drastic vs. sterling, given that the latter was already on the offer side after the announcement of the extension of the QE measures by the BoE.

What will happen next week?

Cable: given the latest developments, we regard the next BoE Inflation Report as a non event. On the US side, retail sales, CPI and IP figures are due for release next week and they should once again underline a slowdown in the pace of recession. As the cable has moderately reacted to the extension of the QE measures by the BoE, we see no reasons, apart from technical reasons, why the GBP should be exposed to a drastic fall next week vs. the greenback, unless a further wave of risk aversion hits markets. However, the UK economy is far from being out of the woods, and we regard it as likely that the BoE will further extend the asset target purchase measures. Thus, in the medium term we remain bearish on the sterling and expect it to come back towards and likely below the 1.45 area.

EUR-GBP: the extension of QE measures in the UK as opposed to the non adoption of QE measures in the eurozone boosted EUR-GBP further. At this stage, the next key target is the 0.90 resistance level. Next week, this cross will be mainly influenced by cable and EUR-USD movements. Indeed, in the medium term, we see the EUR-GBP trading in the 0.90 area again: the BoE will possibly extend once again the asset purchase program, while the ECB has indicated that it is not engaging in QE measures at the moment.

EUR-USD: the EUR-USD, though boosted by the non adoption of standard QE measures, did not manage to definitely break the 1.3450 resistance level. Unless worse-than-expected US employment figures revive risk aversion, the light data calendar next week should imply EUR-USD remaining mostly in the 1.32-1.36 trading range.

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MIB View – Our Global Picture

Global economy

- The ongoing financial market crisis and the after-effects of soaring commodity prices are taking their toll: The global economy is in the middle of a severe recession. At -0.7%, PPP based real global GDP in 2009 will post its first minus since WWII (2008: +3.1%, 2007:+5%). Based on market exchange rates, global growth will contract substantially this year (by approximately 2%)!
- Real GDP in the industrialized countries will most probably shrink this year by 3.2% – more severely than during the recessions in the 70s and 80s. For the US, we expect a minus of 2.2%, while economic activity in the eurozone is expected to even drop by 3.6%. Emerging Asia and China will again lead the growth rankings (2009: +5% and 5.5%, respectively), but will also face a massive economic slowdown.

US

- The US economy, now officially in recession since December 2007, is shrinking dramatically, despite massive unprecedented monetary and fiscal policy impulses. After GDP was down 6.1% in Q1 2009 (annualized), however, the pace of decline can be expected to decline strongly.
- After having lowered its target rate by 425 bp since September 2007 to 1%, the FOMC decided to reduce the key rate to 0%-0.25%, adopting a virtually Zero Interest Rate Policy (ZIRP) in December. The Fed is now pursuing a Quantitative Easing Policy which it already announced in late 2008.

Eurozone

- The eurozone economy is now in its deepest recession since WWII. Tighter credit conditions, poor consumer as well as business sentiment and the after-effects of the EUR appreciation up until last summer accentuate the slowdown, leading to a contraction of 4.0% this year.
- Therefore, in a coordinated action, the ECB started an easing cycle in early October. With the presumably last 25 bp cut in early May to 1.0%, the cumulative easing amounts to 325 bp. In addition to the full-allotment of re-operations up to 12 months, the ECB now also plans to purchase covered bonds.

Government bond markets

- Still substantial risk aversion combined with poor macroeconomic data and corporate news will see government bond yields fall further over the short-term horizon from their current levels.
- But as financial markets as well as the US economy start to stabilize in the course of H2 2009 and the supply of government bonds will surge at the same time, US yields should rise again later this year.
- Bund yields should fall further until mid-2009. Beginning in the summer they should also start to rise – although not as pronounced as their US counterparts.

Exchange rates

- EUR-USD is expected to fluctuate lower over the next few months. However, later this year it should strengthen again, heading toward 1.33 at the end of 2009.
- JPY should weaken over the course of this year.

OUR MACRO FORECASTS

in % y-o-y	2008	2009	2010
GDP EMU	0.7	-4.0	0.1
CPI EMU	3.3	0.4	1.3
GDP Germany	1.0	-5.8	0.4
CPI Germany	2.6	0.6	2.0
GDP Italy	-1.0	-4.2	-0.3
CPI Italy	3.3	0.8	1.5
GDP US	1.1	-2.6	1.4
CPI US	3.8	-0.6	2.2

OUR FI/FX & OIL PRICE FORECASTS

2009/10	30-June	30-Sept	31-Dec	31-Mar
EMU 3M (%)	1.30	1.30	1.30	1.25
EMU 10Y (%)	2.70	2.80	3.00	3.30
US 3M (%)	1.15	0.80	0.65	0.65
US 10Y (%)	2.30	2.30	2.80	3.40
EUR-USD	1.27	1.28	1.33	1.36
USD-JPY	97	102	103	105
Oil Price	50	55	65	70

Macro Forecasts

GDP, real (% , y-o-y)	2003	2004	2005	2006	2007	2008	2009f	2010f
World economy *	3.7	4.9	4.3	5.0	5.0	3.1	-0.8	2.3
Industrialized countries *	1.9	3.1	2.5	3.1	2.7	0.9	-3.4	0.8
US	2.5	3.6	2.9	2.8	2.0	1.1	-2.6	1.4
Euro area	0.8	1.9	1.8	3.0	2.7	0.7	-4.0	0.1
Germany **	-0.2	0.7	1.0	3.2	2.6	1.0	-5.8	0.4
France	1.1	2.2	1.9	2.4	2.1	0.7	-2.5	0.8
Italy	0.1	1.4	0.8	2.1	1.5	-1.0	-4.2	-0.3
Spain	3.1	3.3	3.6	3.9	3.7	1.2	-3.6	-0.8
Austria	0.8	2.5	2.9	3.4	3.1	1.8	-2.2	-0.2
UK	2.8	3.3	2.1	2.8	3.0	0.7	-4.5	0.0
Switzerland	-0.2	2.5	2.4	3.2	3.3	1.6	-2.0	0.3
Sweden	2.1	3.5	3.3	4.4	2.9	-0.5	-3.7	1.2
Japan	1.6	2.7	1.9	2.4	2.0	-0.7	-4.0	1.0
Developing countries *	6.5	7.7	7.4	8.1	8.6	6.4	2.9	4.8
Asia	8.1	8.6	9.0	9.9	10.6	7.8	5.0	6.4
China	10.0	10.1	10.4	11.1	13.0	9.0	5.5	6.8
India	6.9	7.9	9.1	9.7	9.3	7.3	5.1	6.5
Latin America	2.1	6.2	4.6	5.5	5.7	4.6	1.1	3.0
Brazil	1.1	5.7	3.2	3.8	5.7	5.8	1.8	3.5
Central and Eastern Europe	5.8	6.9	5.5	6.3	6.5	4.1	-3.4	0.8
Russia	7.3	7.2	6.4	6.7	8.1	5.6	-3.9	0.6

Consumer prices, CPI (% , y-o-y)	2003	2004	2005	2006	2007	2008	2009f	2010f
US	2.3	2.7	3.4	3.2	2.9	3.8	-0.6	2.2
core rate (ex food & energy)	1.5	1.8	2.2	2.5	2.3	2.3	1.2	0.9
Euro area, HICP	2.1	2.1	2.2	2.2	2.1	3.3	0.4	1.3
core rate (ex food & energy)	1.8	1.8	1.4	1.4	1.9	1.8	1.4	0.3
Germany	1.0	1.7	1.6	1.6	2.3	2.6	0.6	2.0
France	2.1	2.1	1.7	1.7	1.5	2.8	0.1	1.3
Italy	2.7	2.2	1.9	2.1	1.8	3.3	0.8	1.5
Spain	3.0	3.4	3.6	2.8	2.8	4.1	0.0	1.8
Austria	1.3	2.1	2.3	1.5	2.2	3.2	0.4	1.1
UK	1.4	1.3	2.0	2.3	2.3	3.6	1.4	1.0
Switzerland	0.6	0.8	1.2	1.1	0.7	2.4	-0.6	1.6
Sweden	1.9	0.4	0.5	1.4	2.2	3.4	-0.3	1.2
Japan	-0.2	0.0	-0.3	0.2	0.1	1.4	-0.5	0.0

GDP, real (% , q-o-q)	I/08	II/08	III/08	IV/08	I/09p	II/09p	III/09p	IV/09p
US (annualized)	0.9	2.8	-0.5	-6.3	-6.1	-0.3	0.1	1.7
Euro area	0.6	-0.2	-0.2	-1.6	-2.1	-0.6	-0.2	-0.1
Germany	1.5	-0.5	-0.5	-2.1	-3.5	-0.5	-0.3	0.2
France	0.4	-0.3	0.1	-1.1	-1.2	-0.6	-0.1	0.0
Italy	0.3	-0.6	-0.7	-1.9	-1.8	-0.5	-0.2	-0.3
Spain	0.3	0.1	-0.2	-1.0	-1.8	-0.8	-0.7	-0.3
Austria	0.5	0.2	0.0	-0.2	-1.2	-0.9	-0.6	-0.1
UK	0.4	0.0	-0.6	-1.6	-1.9	-1.1	-0.5	-0.2
Switzerland	0.1	0.1	-0.1	-0.3	-1.2	-0.7	-0.2	0.0
Sweden	0.0	-0.1	-1.0	-2.4	-1.1	-0.5	0.1	0.3
Japan	0.6	-1.0	-0.5	-2.5	-0.5	0.0	0.1	0.2

Consumer prices, CPI (% , y-o-y)	I/08	II/08	III/08	IV/08	I/09p	II/09p	III/09p	IV/09p
US	4.2	4.3	5.2	1.5	-0.2	-0.9	-1.9	0.7
core rate (ex food & energy)	2.4	2.3	2.5	2.0	1.7	1.4	0.9	0.9
Euro area, HICP	3.4	3.6	3.8	2.3	1.0	0.2	-0.3	0.6
core rate (ex food & energy)	1.8	1.7	1.8	1.9	1.6	1.5	1.3	1.1
Germany	2.3	3.0	2.9	2.9	3.1	1.7	0.8	0.3
France	2.9	3.3	3.3	1.8	0.6	-0.2	-0.5	0.3
Italy	3.1	3.6	4.0	2.8	1.5	0.8	0.1	0.8
Spain	4.5	4.7	5.0	2.5	0.5	-0.5	-0.9	0.8
Austria	3.3	3.6	3.7	2.2	1.1	0.3	-0.2	0.4
UK	2.4	3.4	4.8	3.9	3.1	1.8	0.5	0.2
Switzerland	2.5	2.7	3.0	1.6	0.0	-1.0	-1.3	-0.2
Sweden	3.2	3.9	4.3	2.4	0.7	-0.5	-1.2	0.0
Japan	1.0	1.4	2.2	1.0	0.7	-0.3	-1.5	-0.8

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

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

Interest & Exchange Rate Forecasts (I)

INTEREST RATE FORECASTS (% , END QUARTER)

2009	current	end-Q2	end-Q3	end-Q4	end-Q1
Eurozone bond market					
Refi rate	1.00	1.00	1.00	1.00	1.00
3M Euribor	1.33	1.30	1.30	1.30	1.25
2Y	1.36	1.20	1.20	1.30	1.50
5Y	2.53	1.90	1.90	2.20	2.45
10Y	3.43	2.70	2.70	3.00	3.30
30Y	4.24	3.30	3.40	3.70	4.20
10Y swap spread (in bp)	19	35	30	30	25
US Treasury Market					
Fed funds target rate	0.13	0.25	0.25	0.25	0.25
3M USD Libor	0.96	1.00	0.80	0.65	0.65
2Y	0.99	0.70	0.70	0.95	1.30
5Y	2.18	1.35	1.35	1.75	2.20
10Y	3.33	2.30	2.30	2.80	3.40
30Y	4.31	3.20	3.20	3.80	4.50
10Y swap spread (in bp)	11	30	30	30	45
Japan					
Target rate	0.10	0.10	0.10	0.10	0.10
3M JPY Libor	0.54	0.50	0.50	0.50	0.50
10Y JGB	1.46	1.20	1.20	1.45	1.70
United Kingdom					
Repo rate	0.50	0.50	0.50	0.50	0.50
3M GBP Libor	1.43	1.40	1.00	0.90	0.90
10Y Gilt	3.72	2.80	2.80	3.15	3.55
Switzerland					
3M CHF Libor mid target rate	0.25	0.25	0.25	0.25	0.25
3M CHF Libor	0.40	0.30	0.30	0.30	0.30
10Y Swissie	2.346	1.80	1.80	2.15	2.50

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q2	end-Q3	end-Q4	end-Q1
EUR-USD	1.3409	1.27	1.28	1.33	1.36
EUR-JPY	133.26	123	131	137	143
EUR-GBP	0.8928	0.92	0.90	0.88	0.87
EUR-CHF	1.5136	1.52	1.52	1.54	1.59
USD-JPY	99.38	97	102	103	105
GBP-USD	1.5020	1.38	1.43	1.52	1.57
USD-CHF	1.1287	1.20	1.19	1.16	1.17

COMMODITY PRICE FORECASTS

	current	end-Q2	end-Q3	end-Q4	end-Q1
Oil price (Brent, USD/b)	57.37	50	55	65	70
DJ-AIG commodity price index	239.25	230	250	270	290

Interest & Exchange Rate Forecasts (II)

INTEREST RATE FORECASTS (% , END QUARTER)

2008/09	current	end-Q2	end-Q3	end-Q4	end-Q1
Sweden					
Key rate	0.50	0.50	0.50	0.50	0.50
3M rate	0.95	0.95	0.70	0.70	0.75
10Y government bond yield	3.53	2.50	2.50	2.85	3.20
10Y spread to Bunds (in bp)	11	-20	-20	-15	-10
Norway					
Key rate	1.50	1.50	1.50	1.50	1.50
3M rate	2.52	2.00	1.75	1.75	1.80
10Y government bond yield	4.13	3.60	3.60	3.95	4.30
10Y spread to Bunds (in bp)	70	90	90	95	100
Canada					
Key rate	0.25	0.25	0.25	0.25	0.25
3M rate	0.80	0.80	0.75	0.75	0.75
10Y government bond yield	3.14	2.50	2.50	2.85	3.20
10Y spread to Bunds (in bp)	-28	-20	-20	-15	-10
Australia					
Key rate	3.00	2.50	2.00	1.50	1.50
3M rate	3.65	2.90	2.40	2.00	2.10
10Y government bond yield	4.97	3.80	3.80	4.15	4.50
10Y spread to Bunds (in bp)	154	110	110	115	120
New Zealand					
Key rate	2.50	2.50	2.00	1.50	2.00
3M rate	3.35	3.30	2.80	2.40	2.50
10Y government bond yield	5.68	4.30	4.30	4.65	5.10
10Y spread to Bunds (in bp)	226	160	160	165	180

EXCHANGE RATE FORECASTS (END QUARTER)

	current	end-Q2	end-Q3	end-Q4	end-Q1
EUR-SEK	10.5075	11.05	11.25	10.91	10.50
EUR-NOK	8.6675	8.70	8.70	8.50	8.40
EUR-CAD	1.5651	1.63	1.63	1.64	1.66
EUR-AUD	1.7747	1.90	1.88	1.85	1.84
EUR-NZD	2.2591	2.40	2.37	2.33	2.31
USD-SEK	7.8366	8.70	8.79	8.20	7.72
USD-NOK	6.4626	6.85	6.80	6.39	6.18
USD-CAD	1.1672	1.28	1.27	1.23	1.22
AUD-USD	0.7556	0.67	0.68	0.72	0.74
NZD-USD	0.5936	0.53	0.54	0.57	0.59
EUR-USD	1.3409	1.27	1.28	1.33	1.36

Economic Event & Data Release Calendar

Date	Time (ECB)	Country	Indicator	Period p: prel.	MIB est.	Consensus (Bloomberg)	Prev. period *revised
				f: final			p: prelim.
08 May to 15 May 20							
Fri, 08 May '09	14:30	US	Average weekly hours	Apr		33.2	33.2
	14:30	US	Average hourly earnings (in % m-o-m)	Apr		0.2	0.2
	14:30	US	Unemployment rate (in %)	Apr		8.9	8.5
	14:30	US	Non-farm payrolls (change in thousands m-o-m)	Apr	-550	-600	-663
	19:00	US	Fed's Lacker Speaks on Economy Before DC Chamber of Commerce				
Mon, 11 May '09	8:45	FR	Industrial production (in % m-o-m)	Mar	-0.1	-0.5	-0.5
	10:00	IT	Industrial production (in % m-o-m)	Mar	-2.0	-2.0	-3.5
Tue, 12 May '09	1:01	UK	House price (RICS, balance)	Apr		-70.0	-73.1
	1:30	US	Bernanke Speaks on Stress Tests at Jekyll Island, Georgia				
	8:00	GE	Consumer price index, CPI (national, in % y-o-y)	Apr	0.7	0.7	0.7
	8:45	FR	Budget balance (EUR bn)	Mar			-29.91
	10:30	UK	Trade balance (EUR bn)	Mar			-3248
	10:30	UK	Industrial production (in % m-o-m)	Mar	-1.0	-0.7	-1.0
	14:30	US	Trade balance (USD bn)	Mar	-30.0	-29.2	-25.965
	20:00	US	Federal budget (USD bn)	Apr		-63	-192.273
Wed, 13 May '09	8:45	FR	Consumer price index (in % y-o-y)	Apr	0.1	0.2	0.3
	8:45	FR	Current account balance (EUR bn)	Mar			-2.2
	10:30	UK	Average earnings (in % y-o-y, 3M moving average)	Mar		-1.1	0.1
	10:30	UK	Jobless claims (change in thousands)	Apr		82.5	73.7
	10:30	UK	Unemployment rate (in %)	Apr		82.5	73.7
	11:00	EMU	Industrial production (in % m-o-m)	Mar	-1.7	-1.2	-2.3
	11:30	UK	Bank of England Releases Quarterly Inflation Report				
	13:00	US	MBA mortgage applications	May 8			2.0
	14:30	US	Import prices (in % m-o-m)	Apr	0.2	0.4	0.5
	14:30	US	Retail sales ex autos (in % m-o-m)	Apr		0.0	-1.0
	14:30	US	Retail sales (in % m-o-m)	Apr	0.1	-0.1	-1.2
	16:00	US	Business inventories (in % m-o-m)	Mar		-1.2	-1.3
Thu, 14 May '09	8:00	EMU	New passenger car registration (EU 25, in % y-o-y)	Apr			-9.1
	9:00	SP	Real GDP (in % q-o-q)	Q1	-1.8		-1.0
	10:00	EC	ECB's Papademos Speaks at Conference in Vienna				
	10:00	EC	ECB Publishes May. Monthly Report (Text)				
	14:30	US	Initial jobless claims (in thousands)	May 8	625	635	601
	14:30	US	PPI ex food & energy (core, in % y-o-y)	Apr		3.4	3.8
	14:30	US	Producer price index, PPI (in % y-o-y)	Apr		-3.9	-3.5
	14:30	US	PPI ex food & energy (core, in % m-o-m)	Apr	0.0	0.1	0.0
	14:30	US	Producer price index, PPI (in % m-o-m)	Apr	0.0	0.1	-1.2
	18:20	EC	ECB's Stark Speaks at Conference in Berlin				
Fri, 15 May '09	8:00	GE	Real GDP (in % q-o-q)	Q1	-3.5	-3.0	-2.1
	8:45	FR	Non-farm payrolls (in % q-o-q)	Q1		-0.8	-0.7
	8:45	FR	Real GDP (in % q-o-q)	Q1	-1.2	-1.3	-1.1
	10:00	IT	Real GDP (in % q-o-q)	Q1	-1.8	-1.7	-1.9
	11:00	IT	Consumer price index (in % y-o-y)	Apr		1.3	1.3
	11:00	EMU	Core CPI (in % y-o-y)	Apr		1.6	1.5
	11:00	EMU	Consumer price index, CPI (in % y-o-y)	Apr	0.6	0.6	0.6
	11:00	EMU	Real GDP (in % q-o-q)	Q1	-2.1	-4.1	-1.4
	14:30	US	CPI ex food & energy (core, in % y-o-y)	Apr		1.8	1.8
	14:30	US	Consumer price index (in % y-o-y)	Apr		-0.6	-0.4
	14:30	US	CPI ex food & energy (core, in % m-o-m)	Apr	0.0	0.1	0.2
	14:30	US	Consumer price index (in % m-o-m)	Apr	-0.1	0.0	-0.1
	14:30	US	NY Fed Empire State Manufacturing Survey	May		-14.0	-14.7
	15:00	US	Net long-term capital inflows (TIC, USD bn)	Mar			22.047
	15:15	US	Fed's Fisher Speaks at Texas Bankers Association Conference				
	15:15	US	Capacity utilization (in %)	Apr	68.9	68.9	69.3
	15:15	US	Industrial production (in % m-o-m)	Apr	-0.5	-0.5	-1.5
	16:00	US	University of Michigan consumer confidence	May	68.0	65.0	65.1

*: 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 p: prel. f: final	MIB est.	Consensus (Bloomberg)	Prev. period *revised p: prelim.
18 May to 22 May 20							
Mon, 18 May '09	7:00	JN	Consumer confidence (Nationwide, index)	Apr			29.6
	11:00	EMU	Trade balance (EUR bn)	Mar			-3961
	19:00	US	NAHB housing market index	May			14.0
Tue, 19 May '09	0:00	FR	Business confidence expectations	May			-35.0
	6:30	JN	Industrial production (in % y-o-y)	Apr			-34.2
	10:00	IT	Trade balance (EUR bn)	Mar			-837
	10:30	UK	CPI core (in % y-o-y)	Apr			1.7
	10:30	UK	Consumer price index (in % y-o-y, harmonized)	Apr	2.2		2.9
	11:00	GE	ZEW survey - expectations (index)	May			13.0
	14:30	US	Housing starts (in thousands)	Apr	540		510
	14:30	US	Building permits (in thousands)	Apr	530		516
	19:15	US	Fed's Stern Speaks in Willmar, Minnesota				
Wed, 20 May '09	0:00	FR	Services PMI (index)	May			46.5
	0:00	FR	Manufacturing PMI (index)	May			40.1
	0:00	GE	Import price index (in % y-o-y)	Apr			-7.1
	1:50	JN	Real GDP (in % q-o-q)	Q1		-4.3	-3.2
	8:00	GE	Producer price index, PPI (in % y-o-y)	Apr			-0.5
	10:00	IT	Industrial orders (in % m-o-m)	Mar			-1.5
	10:30	UK	Bank of England Releases Minutes of Interest Rate Decision				
	11:00	IT	Current account balance (EUR bn)	Mar			-3804
	20:00	US	Fed Releases Minutes from April 28-29 FOMC Meeting				
Thu, 21 May '09	0:00	EMU	Composite PMI (index)	May			41.1
	0:00	EMU	Services PMI (index)	May			43.8
	0:00	EMU	Manufacturing PMI (index)	May			36.8
	10:30	UK	Retail sales (in % m-o-m)	Apr			0.3
	14:30	US	Initial jobless claims (in thousands)	May 15	625		
	16:00	US	Leading indicators (Conference Board, in % m-o-m)	Apr	0.5		-0.3
	16:00	US	Philadelphia Fed Business Outlook Survey	May			-24.4
Fri, 22 May '09	0:00	JN	BOJ Target Rate				
	0:00	JN	Bank of Japan key rate (in %)	Jan 1			0.1
	1:00	US	Fed's Plosser Speaks to Investors, Economists in New York				
	10:00	IT	Retail sales (in % m-o-m)	Mar			-0.7
	10:30	UK	Real GDP (in % y-o-y)	Q1			-4.1
	10:30	UK	Real GDP (in % q-o-q)	Q1	-1.8		-1.9

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