# 2012 Outlook

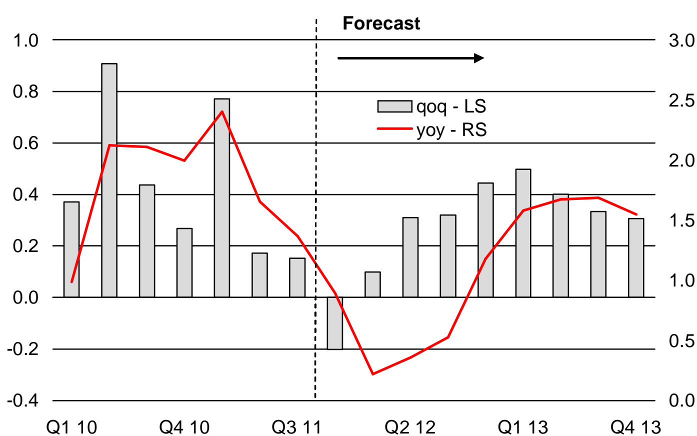
## Gradually moving towards a better place

- GDP growth in the eurozone should ease from 1.6% in 2011 to 0.6% in 2012. However, we expect the economy to trough this winter, followed by gradually better growth over the course of the year as financial tensions start easing.
- We forecast significant divergence in growth performance throughout the eurozone, as the periphery will be dragged by both fiscal consolidation and much tighter monetary conditions until the ECB regains control of monetary policy.
- A more aggressive ECB, further measures on eurozone governance and signs of stabilization in the economy should help markets. We expect significant spread tightening, particularly at the short end. Meanwhile, we see further euro weakness ahead.

*The Economics & FI/FX Research Team*

**EUROZONE: SOFT PATCH, NO RECESSION**

GDP (in %)




Source: Eurostat, UniCredit Research

**Editor**
Marco Valli
Chief Eurozone Economist
+39 02 8862-8688
marco.valli@unicredit.eu

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# Executive Summary

- We expect global GDP growth to ease from about 4.25% in 2011 to just over 3% in 2012. The eurozone will probably see its growth rate declining from 1.6% to 0.6%. However, these are annual averages; the continuous path is likely to see a trough in the present quarter, followed by a moderately better performance during 2012. That said, the world is facing very large uncertainties due to the severity of the 2008-09 recession, recent years' unprecedented policy reactions, and remaining global and domestic imbalances.
- 2011 became a year of two very different parts. The first four months enjoyed the tailend of the traditional bounce in global GDP following the great recession. The period saw good performances in equities, while high-rated bonds, like bunds, were being sold. The ECB hiked rates (twice); other major central banks kept their rates at record low levels. The euro remained overvalued.
- However, as the post-recession bounce petered out during spring, it also became clear that the first package for Greece would not be enough to cover the shortfall – and investors turned increasingly risk-adverse: first moderately so, later in the year fear began to spread as Italy and Spain were hit by contagion and as European policy makers – scrambling with internal disagreements – responded relatively timidly. Investors increasingly turned away from risk and sought shelter in top-rated government bonds, driving these yields into deep negative territory in real terms.
- But the world did not come to an end, and some 90% of the world's bond funds will be ending the year having underperformed their benchmarks, while the hedge fund community on average will have registered its second-worst performance in 20 years, losing 4.0%-4.5% of their capital.
- As we enter 2012, uncertainties could hardly be any greater. But on balance we see the European economy bottoming out this winter, followed by moderately better growth back towards 1.5% annualized around end-2012. Fiscal consolidation and continued uncertainty will be a drag on the recovery, and tight monetary conditions in the periphery will further hurt the recovery in these countries. In the case of Italy, Portugal and Greece, we expect GDP to contract in 2012. Importantly, private sector balance sheets remain in good condition in most eurozone countries, including Italy. Exports have already started to recover nicely throughout the eurozone periphery; a trend we expect to continue.
- If we are right about the GDP path, then markets should start to recover during the next 2-3 months. The ECB's aggressive move on liquidity, announced in December, will help. Spreads should tighten, equities should start to recover, and as banks enjoy greater access to ECB liquidity in both euros and dollars, their need to sell FX-denominated assets will ease – and with that we see further euro weakness.
- However, for this moderately better outlook to materialize, it is critical that investors' concerns start to ease. In spite of unprecedented fiscal and structural adjustments throughout the eurozone periphery, investors remain on the side-line. They are concerned about the ECB's hesitant stance towards restoring a proper transmission mechanism, which has led to unsustainable differences in monetary conditions across the eurozone. They are also concerned about uncertainties surrounding possible private sector participation in future debt work-outs. As a result, what is ultimately a sovereign crisis has spread to also become a financial sector crisis, and is starting to threaten the non-financial private sector as well as social cohesion in some countries.
- Meanwhile, uncertainties continue to be rooted in underlying global imbalances, which played a significant role in triggering the crisis in 2008. They are being addressed at a very slow pace, if at all. In the US, where growth broadly matched that of the eurozone this year, private consumption - in part driven by ongoing fiscal stimulus and lower inflation rates - is likely to fuel somewhat better growth in 2012, but public debt as a share of GDP is moving through 100% on its way to Italian levels and household balance sheets remain extremely vulnerable. US savings ratios will remain below 4% of income; one third of that in the eurozone.
- China, which – mathematically – produced more than one third of global growth in 2011, has still not made any significant inroads in its long-term plan to boost domestic demand at the expense of external demand. As a result, the Chinese economy has been slowing during the second half of 2011 due to weaker export markets. Whether the authorities can mastermind another boost to growth via public investment in infrastructure and housing as well as through state-owned enterprises remains to be seen.

*Erik F. Nielsen*
*Global Chief Economist*
*UniCredit Research*

# Eurozone Outlook

## Soft patch followed by slow recovery – but (two way) risks dominate

Marco Valli
(UniCredit Bank Milan)
+39 02 8862 8688
marco.valli@unicredit.eu

In the eurozone, 2011 closes with most survey indicators signalling a high probability of a mild GDP contraction at year-end. However, hard data continue to come in somewhat firmer, confirming a trend that has been in place for the last few months. This leaves us comfortable with our long-held view that the eurozone economy is going through a "soft patch", but not falling off a cliff. We forecast a 0.2% qoq GDP drop in 4Q11, the quarter that will probably see the largest impact on business and consumer sentiment from the market turmoil that started this summer. However, **we remain more optimistic than consensus and think that the euro area will be able to avoid a recession**, although we are aware that this call relies heavily on the assumption that sovereign tensions will abate over the course of next year.

**We expect financial tensions to ease next year**

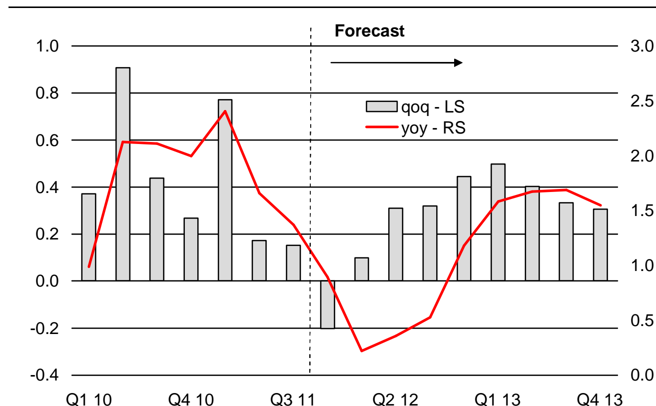
In our baseline GDP scenario, we assume a sustainable decline in Italian and Spanish government bond yields starting already in the first months of next year, followed by tangible relief for the European banking sector as a whole and, in turn, an improvement in sentiment indicators across the economy. We do not think there'll be one specific trigger for this improvement. Given the accumulated effects of policy adjustments and the signs that the real economy is bottoming out – and with the banking system set to meet the 9% core Tier-1 capital threshold by mid-2012 – **markets would presumably start to adjust**. Certainly it is difficult to imagine another year in which 90% of the world's bond funds underperform and the hedge fund community delivers negative returns to their investors.

**We are getting close to the trough**

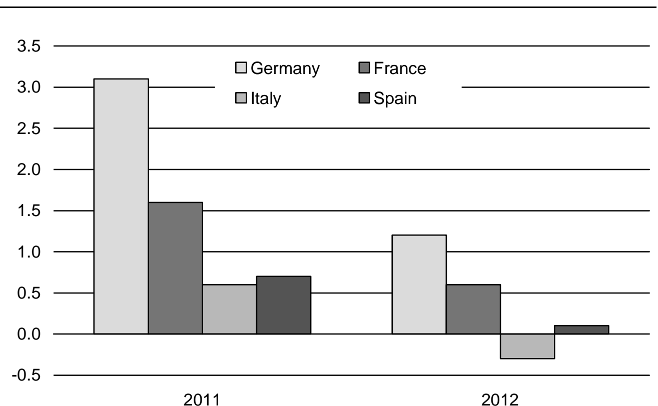
If we get some relief in financial markets, still solid private sector fundamentals – particularly at the corporate level – and some revival of demand from emerging countries should be sufficient to put the (moderate) recovery back on track. In our baseline scenario, **we are getting close to the trough and growth resumes already at the beginning of 2012**, gradually re-accelerating over the course of the year and into 2013. Capex should contract between end 2011 and early 2012, but afterwards will probably react relatively quickly to the expected improvement in economic conditions. In contrast, the upside potential for private consumption seems quite limited in the course of next year, as employment growth will falter and the fiscal stance will remain clearly restrictive, leaving slower inflation as the only support for real disposable income.

In yearly average terms, following 1.6% expansion in 2011, **we forecast GDP growth of 0.6% in 2012 and 1.6% in 2013**. These aggregate numbers hide a heterogeneous picture: among the largest economies, next year Germany is expected to outperform (+1.2%), while Italy will likely lag behind (-0.3%), due to the mix of fiscal austerity and tight financial conditions. Please see the annex for more details on the three big eurozone countries.

**EUROZONE GDP: SOFT PATCH, NO RECESSION**




**GDP ACROSS THE AREA: HETEROGENEOUS PICTURE**




Source: Eurostat, National Sources, UniCredit Research

**What drag from fiscal policy?**

**Fiscal policy is the single most important dampening factor for economic growth in the years 2011-2013**. However, as the fiscal stance in 2012 will be very similar to 2011, austerity will NOT be responsible for the severe GDP slowdown envisaged in 2012, which will be mostly driven by the easing in global growth and the intensification of financial tensions recorded in 2H11. Similarly, given that the drag from budgetary consolidation will be lower in 2013 than in 2012, the fiscal stance will contribute positively to the growth acceleration expected in 2013. In general, the size of fiscal tightening across the eurozone is easy to compute as the sum of individual countries' fiscal plans, but its aggregate impact on economic activity is extremely uncertain. The table below shows the size of the budgetary consolidation announced so far in the largest eurozone countries as well as the periphery, together with the estimated GDP drag area-wide. In our projections, **we have assumed a fiscal multiplier of 0.5** – essentially to reflect the mix of higher revenues/lower spending embedded in national budgets – **but we reckon that risks to this estimate are in both directions**.

On the downside (i.e. higher multiplier), simultaneous belt-tightening measures across trading partners may increase the drag on GDP, particularly if monetary policy has only limited room to react to the restrictive fiscal stance. On the upside (i.e. lower multiplier), consolidation could bite less than expected if austerity helps weaker countries regain market confidence and thus reduce debt-servicing costs – particularly if a credible fiscal policy triggers ECB intervention leading to lower sovereign bond yields! In a favorable scenario, we can expect the fiscal multiplier to be as low as 0.25, while in an unfavourable scenario we could get as high as 0.75. In the former case, austerity would dampen GDP by 0.3-0.4pp in 2012 and by 0.2-0.3pp in 2013, whereas in the latter case the drag would be 1pp next year and 0.7-08pp in 2013.

**Estimating the GDP impact of EBA's decisions**

**Higher capital requirements will weigh on GDP, but not excessively**. The EBA's recently updated estimates indicate that the banking sector will need EUR 115bn of additional capital to reach a 9% CT1 capital ratio by the middle of 2012. Using the estimates provided by the IIF to gauge the impact of Basel III on economic growth, we find that EUR 115bn of higher core capital requirements (in a "rapid adjustment scenario") would lead to an average drag on GDP growth of approximately 0.1pp a year, with 2013 likely to be affected more than 2012. This can be considered as a lower bound for the GDP impact of new capital requirements. However, the drag on growth would increase substantially if we assume that a higher core Tier-1 capital ratio is achieved mostly by balance sheet shrinking. In this case, for every 1pp increase in the total equity/total assets ratio achieved with a 25% contribution of capital raising and a 75% contribution of asset shrinking, we estimate that credit growth could drop by about 8%. According to ECB calculations[1], this credit contraction could have a cumulative impact on GDP of about -0.7pp. We see this as an upper bound. In our baseline scenario, we assume that the adjustment towards higher capital ratios will occur mostly via capital raising. Overall, **we expect higher capital requirements/deleveraging to shave about 0.1-0.2pp off GDP growth in 2012 and 0.3pp in 2013**, but the uncertainty around these estimates is high.

**FISCAL ADJUSTMENT AND GDP IMPACT**

| | Germany | France | Italy | Spain | Greece | Portugal | Ireland | Whole Eurozone | Impact on Eurozone GDP (in pp) |
|---|---|---|---|---|---|---|---|---|---|
| weight (in % of EMU GDP) | 28.2 | 22.0 | 17.5 | 12.0 | 2.6 | 2.0 | 1.7 | 100 | |
| fiscal stance in 2011 (% GDP) | -1.0 | -1.3 | -0.9 | -3.0 | -2.7 | -4.5 | -3.9 | -1.4 | -0.7 |
| fiscal stance in 2012 (% GDP) | -0.5 | -1.5 | -2.9 | -1.2 | -3.0 | -5.0 | -2.4 | -1.5 | -0.7 |
| fiscal stance in 2013 (% GDP) | -0.5 | -0.6 | -1.5 | -0.9 | -2.1 | -2.5 | -1.5 | -0.9 | -0.5 |

Note: A negative number indicates fiscal retrenchment.

Source: National Sources, UniCredit Research

[1] See "Do Bank Loans and Credit Standards Have an Effect on Output? A Panel Approach for the Euro Area", ECB WP (1150), January 2010.

**A look at the credit cycle**

Higher capital requirements will most likely negatively affect banks' willingness to lend, but **at least three other factors argue for a weakening of credit trends over the course of 2012**. To some extent, this will be the price paid by the private sector in the peripheral countries of the ECB having lost control of monetary policy (as the transmission mechanism became impaired) during the last 18 months:

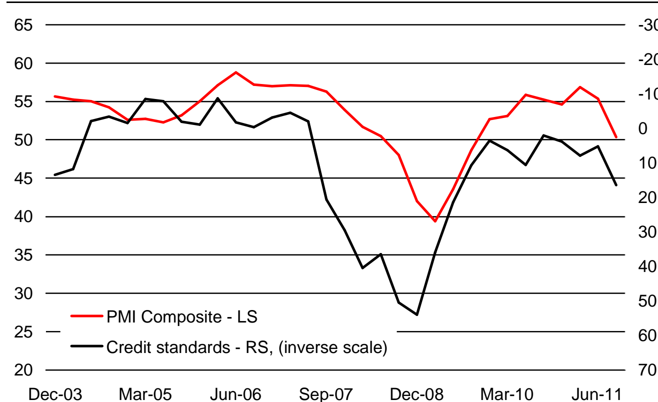
1) Bank credit standards move in tandem with two of their main determinants, namely changes in economic conditions (as measured by the composite PMI), and banks' cost of funding (proxied by the iTraxx financials). Given our view that business surveys will bottom out within the next couple of months, while banks' funding pressures will start easing as early as 1Q12, we expect that the tightening of credit standards recorded this summer will intensify between late 2011 and early 2012.

2) The long lag – about 4 quarters – between the peak in the net tightening of credit standards and the trough in credit growth, as measured by the yearly growth rate of lending to the private sector (currently at 2.7%).

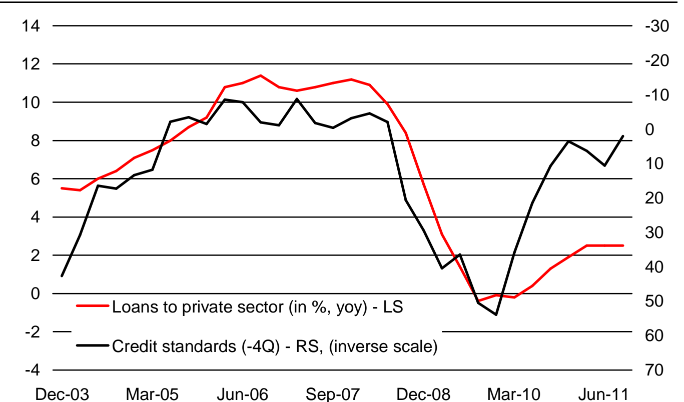
3) Household lending, the first credit aggregate to turn, entered a slowing trajectory in mid-2011. In previous cycles, the average lag between the turning points in household lending and overall lending to the private sector was 3 quarters.

Taking these regularities into account, **we expect lending to the private sector to start weakening in the first months of 2012 and to bottom out after about one year**. We are aware, however, that higher capital requirements in a context of funding stress can potentially alter the lags of this credit cycle compared to the past. The extent of the credit deceleration is even more challenging to call because, on the supply side, credit growth will depend on the one hand on banks' deleveraging strategies and, on the other hand, on the effect of the unprecedented liquidity measures recently put in place by the ECB (particularly the 3Y LTROs). Given the very subdued starting point, it would not be surprising to see credit growth numbers turning negative as we approach the trough of the lending cycle.

**CREDIT STANDARDS GO HAND IN HAND WITH THE PMIs**




**CREDIT STANDARDS LEAD LENDING GROWTH**




Source: ECB, Markit, UniCredit Research

# ECB Outlook

## Rates on hold, but with increasing chances of additional easing

Marco Valli
(UniCredit Bank Milan)
+39 02 8862 8688
marco.valli@unicredit.eu

The new ECB macroeconomic forecasts unveiled on 8 December, envisaging substantial downside risks to the growth outlook, indicate that **the central bank is more bearish than us and enters 2012 with a clear easing bias**. However, the decision to cut rates in December was not unanimous, implying that the GC may wait another couple of months before re-assessing the case for a further easing. If our baseline scenario of no recession proves correct, by February/March most leading indicators should have started to turn, persuading the ECB that no further downward revision to the GDP/CPI outlook is needed. In turn, this should weaken the case for cutting below 1%, although inflation hovering around 2% (from 3% currently) and the expected slowdown in credit dynamics are certainly consistent with another one or two rate cuts during the course of 1H12. One additional source of uncertainty is the fact that Euribor rates are adjusting very slowly (too slowly) to lower policy rates, implying that the transmission mechanism of monetary policy remains highly impaired. On the one hand, this strengthens the downside risks to our refi rate call but, on the other hand, shows that more radical ECB action is definitely needed on the govie purchases front. **If we are wrong and the ECB does not deliver on the SMP, policy rates will very likely head lower next year**.

**We expect no more cuts**

In terms of economic variables (e.g. exchange rates and commodity prices, discussed in the next sections of this publication), our outlook is well balanced with respect to risks. However, in terms of political or event risks, our outlook suffers from more downside than upside risks.

**Risks to our scenario**

That said, political upside risks do exist. If national governments continue to take their dose of painful adjustment, and the pan-European response to the crisis moves in the direction of the fiscal compact, agreed in principle by the Summit in December, then it is still possible that the ECB moves more aggressively to restore the transmission mechanism by beefing up its purchases of sovereign debt. We would expect a powerful chain reaction as market participants observe the change of heart at the ECB, involving sovereign spreads, banks' cost of funding, business and (to a lesser extent) consumer sentiment. **This remains the easiest and most effective way out of the crisis,** and probably the least expensive for the balance sheet of the central bank.

But it is also possible that the economy remains relatively flat for a longer period of time, that the participating governments fail to implement the fiscal compact, and that the ECB's attempts to restore the transmission mechanism via liquidity to the banking system doesn't really work – and that they remain too timid on the SMP. In that case, we expect a long and painful 2012, with huge volatility and rising risk of a potentially catastrophic development in the financial system.

**THE ECB IS MORE BEARISH THAN US**

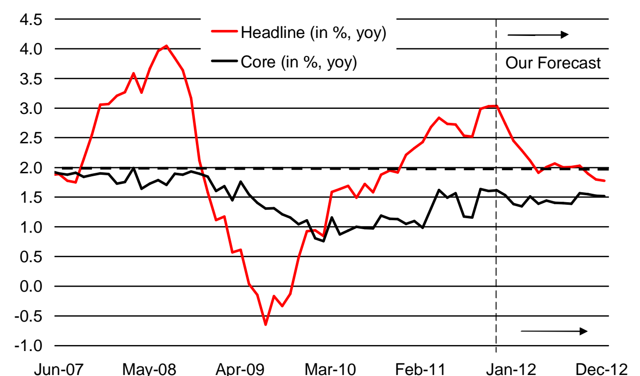
ECB Projections (Dec-11)

| GDP | | CPI | |
|---|---|---|---|
| 2012 | 2013 | 2012 | 2013 |
| 0.3 | 1.3 | 2.0 | 1.5 |

UniCredit Forecasts

| GDP | | CPI | |
|---|---|---|---|
| 2012 | 2013 | 2012 | 2013 |
| 0.6 | 1.6 | 2.0 | 1.9 |

**INFLATION SET TO EASE**




Source: ECB, Eurostat, UniCredit Research

# UK Outlook

## Slow recovery as high inflation and weak exports continue to provide drag

Chiara Corsa
(UniCredit Bank Milan)
+39 02 8862 2209
chiara.corsa@unicredit.eu

Mauro Giorgio Marrano
(UniCredit Bank Milan)
+39 02 8862 8222
mauro.giorgiomarrano@unicredit.eu

**The UK economy is approaching the end of 2011 on quite a weak footing.** First, the intensification of the EMU debt crisis since the summer has led to a deterioration of consumer and business confidence, which is now feeding through to the real economy. Second, the debt crisis has also led to increased bank funding costs, which – while still not resulting in tighter credit conditions – may lead to lower credit availability and higher costs for borrowers in upcoming months. Third, the slowdown in the global economy and in the main trade partners – in particular the euro area – is affecting UK exports, as evident in the net trade contribution to GDP growth, which – after having been positive in 1Q – has turned increasingly negative until 3Q. Fourth, inflation in 3Q and 4Q was higher than expected due to higher utility bills, and is thus further squeezing households' real disposable income.

**Weak growth at the turn of year**

These factors are likely to have the main impact at the turn of the year. We expect GDP growth to slow from 0.5% qoq in 3Q to 0.1% qoq in 4Q, implying a growth rate of 0.9% for 2011 as a whole, and to remain at 0.1% qoq in the first quarter of 2012.

**A gradual recovery from 2Q**

**From 2Q12 onwards, we expect growth prospects to gradually improve** as tensions related to the EMU debt crisis gradually ease, the squeeze on real disposable income diminishes thanks to lower inflation, and the global economy recovers. **Nevertheless, we expect growth to remain modest in 2Q and, although higher, still below potential for the rest of the year.** This is due to the fact that consumers are likely to resume spending only gradually as nominal wage growth will remain weak in light of the persistent slack in the labor market and as fiscal consolidation will continue to weigh on growth. Regarding the composition of growth, we expect the drivers to be a mild recovery in consumption, and more solid growth in investment and net trade. We expect GDP to grow 0.8% in 2012 as a whole. As we enter 2013, we expect GDP to accelerate further reaching level close to potential towards the middle of the year.

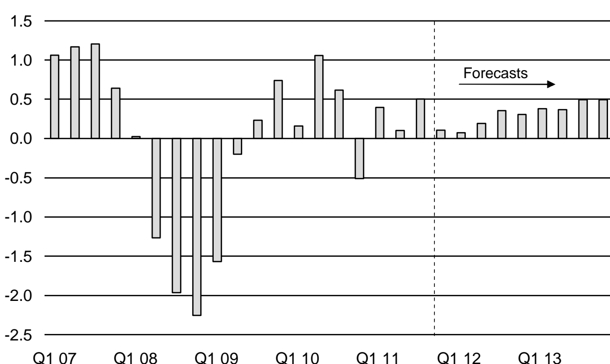
**Inflation to fall sharply**

**Regarding inflation, we expect headline inflation to fall sharply in the first half of 2012** as the past VAT and energy price increases fall out of annual comparisons, and to continue to decline gradually in the second part of the year as spare capacity remains. We expect inflation to average 4.5% in 2011, 2.8% in 2012, and 2.2% in 2013.

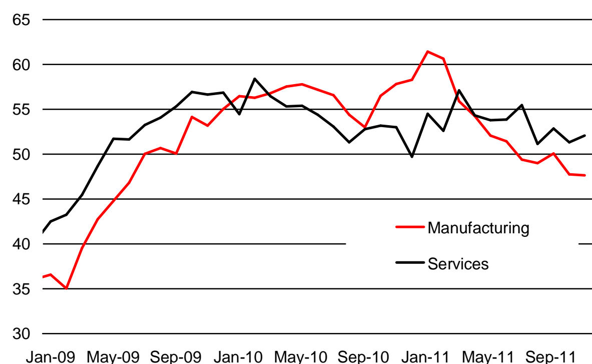
**More QE in February**

**Downward pressure on CPI in 2012 and the weak growth outlook, which also presents significant downside risks, are consistent with a further extension of QE** (+GBP 50bn) in February 2012, when the asset purchases announced in October will be completed. This will bring the total stock of asset purchases to GBP 325bn. However, further asset purchases are unlikely thereafter, as the economic recovery in the UK should start to look better and as the benefits of additional QE might not outweigh the costs. With respect to the Bank Rate, we anticipate the BoE to remain on hold throughout 2012 and the first 25bp hike only in 1Q13.

**GDP GROWTH (IN % QOQ)**




**MANUFACTURING AND SERVICES PMI**




Source: ONS, Markit, UniCredit Research

# Switzerland Outlook

## Contraction ahead due to the lagged effect of an overvalued FX

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

**Global slowdown and strong currency weighing on exports**

The Swiss economy started into the second half of 2011 on a weak note. The first decline in real exports since the beginning of 2009 confirms that the global downswing is having an increasingly negative impact on the small, open economy - materially exacerbated by the massive appreciation of the franc. **Despite the successful implementation of the minimum exchange rate of 1.20 versus the EUR by the SNB since early September 2011, the effective exchange rate has still appreciated by 27% since the start of the financial crisis**. Until the middle of the year, Swiss manufacturers were able to maintain real export growth by operating with heavily depressed profit margins. But meanwhile the volume in goods exports is pointing south, accompanied by a setback in tourism revenues.

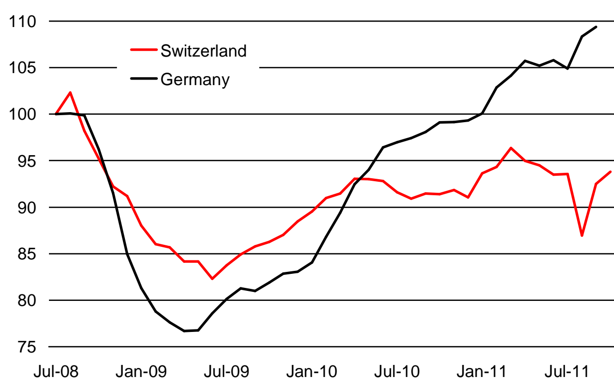
**Economic growth will continue to slow in 2012**

The slowdown in economic growth will continue well into 2012 – with the manufacturing sector as the main drag. Industrial activity in important export markets has weakened further of late, especially in the neighboring EMU countries. **We expect a contraction in exports as well as business investment in 2012**. Moreover, the Swiss labor market has turned. And corporate employment plans indicate sizable further job losses. Hence, despite improved purchasing power due to lower consumer prices and continuing net immigration, **private consumption will remain subdued in the coming quarters**. Population growth together with the very favorable interest level should maintain, however, support for the solid expansion in residential construction.

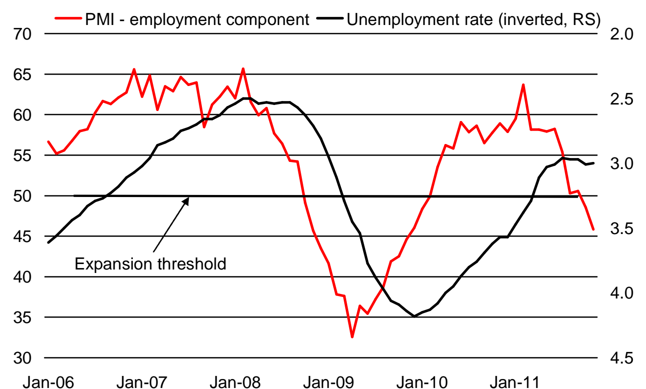
**SNB to maintain its zero-interest policy until end-2012**

Overall, although the risks remain clearly tilted to the downside, the **Swiss economy should be able to avoid a deeper recession**. We expect only a moderate contraction at the beginning of 2012, followed by a modest upward trend in the course of next year. A gradual rebound of global demand should increasingly support Swiss growth momentum again towards 2013. After meager 0.3% next year, GDP should rise 1.6% in 2013. In our baseline scenario, the **SNB maintains its zero-interest policy until the end of 2012**. Additional unconventional measures, i.e. lifting the exchange rate target, appear likely only with a further substantial deterioration of the growth and deflation outlook.

**NOMINAL EXPORTS (JUL-08=100)**




**UNEMPLOYMENT IS RISING**




Source: Bundesbank, BfS, Bloomberg, UniCredit Research

# US Outlook

## Sub-standard growth with few underlying adjustments of imbalances

Harm Bandholz
UniCredit Bank)
+1 212 672-5957
harm.bandholz@unicredit.eu

We expect the US economy to expand by 2% in calendar 2012. That is slightly slower – certainly not faster – than the estimated potential growth of 2%-2¼%. **The lack of leverage and the absence of the typical post-recession housing recovery remain the key explanations for the tepid overall recovery**.

**A tepid economic recovery in 2012…**

That leaves private consumption as the main growth engine. In 2012, household spending is expected to increase by close on 2%. That is slightly less than in 2011 (2¼%), but as fast as in 2010 (2%). Our forecast assumes that the payroll tax cuts and long-term unemployment benefits that are scheduled to expire at the end of this year will be extended in their current form for a further year. On sustained moderate employment and wage gains as well as slightly lower inflation rates, real disposable incomes should increase by roughly 1½% in 2012. While that is about one half of a percentage point more than in the current year, it is, however, still lower than the expected gain in consumption. The forecast implies, therefore, that the savings rate remains below 4% in 2012, about one half of a percentage point lower than in 2011. Accordingly, **household deleveraging will probably continue to slow.** Moreover, as consumer spending rises at about the same pace as overall GDP, the consumption share remains at an unsustainably high 70% of GDP. While the public deficit is expected to shrink gradually, it remains historically high and triggers a further rise in the general government's debt-to-GDP ratio to 105% from 100%. A lower private savings rate in combination with a slightly lower public deficit means that net exports do not add to overall GDP growth in 2012 as the current account deficit stabilizes at 3¼% of GDP.

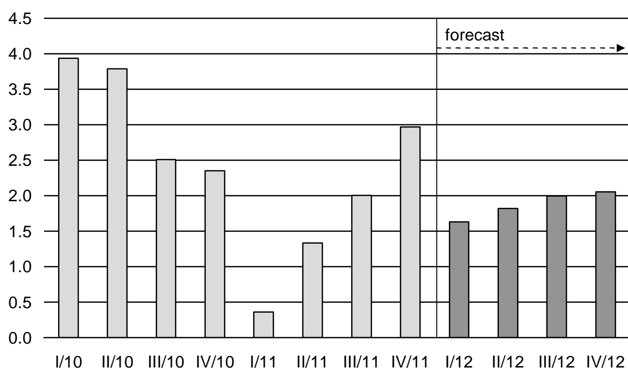
**…driven by private consumption…**

Capex spending, which has risen at double-digit rates in 2010 and 2011, continues to support growth, albeit at a slower pace than in the last two years; for 2012 we expect an increase of 6¾%. New orders for capital goods point in particular to a significant slowdown at the beginning of the year. In part, this development reflects businesses' concerns about the global economy that had emerged in the summer. In addition, most repair and maintenance projects, which had triggered a veritable investment boom after the Great Recession ended, should have now been completed.

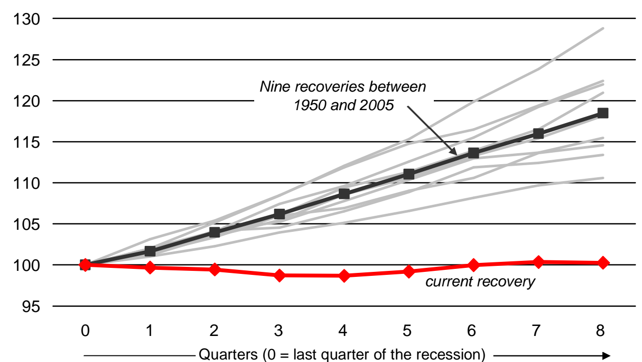
**…and capex spending**

**Following a temporary dip at the beginning of 2012, in which GDP growth is expected to fall below 2%, the economy will likely regain momentum in the course of the year**. The somewhat faster growth in the second half of the year is supported by again stronger capex spending and a gradual improvement in the housing market. Both developments will support the labor market and eventually consumer spending. In anticipation of this improvement, the leading indicators should bottom in the spring.

**GDP (IN % QOQ, ANNUALIZED)**




**CREDIT MARKET DEBT OF ALL SECTORS**




Source: BEA, Federal Reserve, UniCredit Research

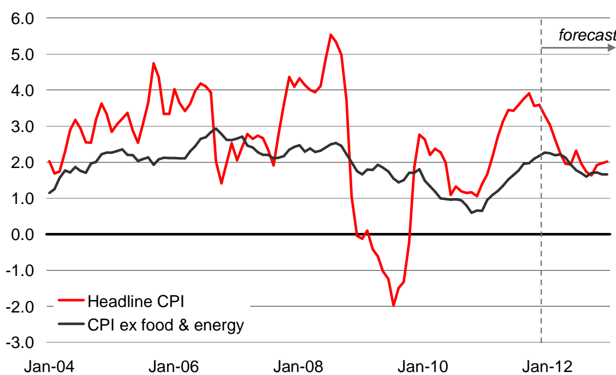
**Fiscal policy is the main risk to the growth outlook**

**The main risk to our growth outlook is stemming from fiscal policy – on both sides of the Atlantic**. These are event risks that in the current environment unfortunately are primarily skewed to the downside. In the US, a non-extension of the expiring payroll tax cuts and the long-term-unemployment benefits would halve disposable income gains in 2012, while later in the year the Presidential election campaign could become a drag on the economy. Catalysts would be the ongoing trench warfare between the political parties, which is fueling the uncertainty about the medium-term budget course (e.g. the future of the Bush tax cuts) and therefore resulting in a general loss of household and corporate confidence. A further concern is that the European debt crisis fuels a growing panic on financial markets and, therefore, spills over to the US. Amid the only very slow underlying pace of growth, any significant shock could send the US economy back into a recession. While we consider this scenario unlikely, it nevertheless remains a risk.

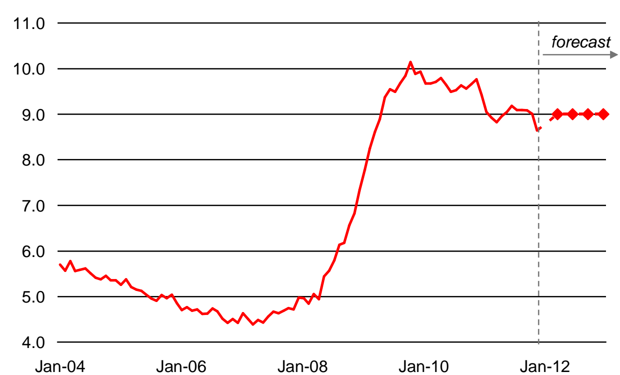
**Fed to announce another round of QE by the spring**

In this environment, **monetary policy is likely to become even more accommodative**. Slower inflation rates in combination with a stubbornly high unemployment rate means that the Federal Reserve will probably announce another round of long-term asset purchases ("QE3") by the spring. We think that the program will focus on mortgage-backed securities and have a volume of USD 500bn.

**INFLATION EXPECTED TO EASE**




**UNEMPLOYMENT RATE: STUBBORNLY HIGH**




Source: BLS, UniCredit Research

# FI and FX Outlook

## Spread tightening, particularly in the short end - and more euro weakness

Luca Cazzulani
(UniCredit Bank Milan)
+39 02 88620640
luca.cazzulani@unicredit.eu

Roberto Mialich
(UniCredit Bank Milan)
+39 02 8862 0658
roberto.mialich@unicredit.eu

**In the first part of 2011 market mood was improving; investors were selling German Bunds and buying equities**. Demand for Italian and Spanish bonds was good, the euro was in great shape and the ECB was hiking rates. Both USTs and Gilts spent the first part of the year in a fairly narrow trading range.

**In April,** when it became clear that the first austerity package for Greece would have not been enough to cover the shortfall, **mood started to deteriorate** and contagion spread to Italy, Spain and even to some AAA countries. Matters were complicated by a slowdown in global demand. **Bunds, USTs and Gilts received very strong demand.**

**Yearly returns have again been very dispersed**

**Again this year, countries performance was very dispersed in the EMU.** Core countries have provided positive total returns (although not as good as Germany) while peripherals have been in the red (Greece is down a whopping -60%, Portugal -24% and Italy -7.6%). **Ireland provided a hefty yearly total return** (almost 8% according to EFFAs).

**Debt crisis and its implications for the real economy to be key for bond yields**

**The key driver for bond markets next year will remain the debt crisis and its potential impact on the real economy.**

The current slowdown in data should be a soft patch rather than the early stage of a proper recession, but it is paramount that sovereign tensions ease. Indeed, the debt crisis affects risk preference, funding costs for governments and banks in the periphery (and in turn lending activity) and confidence n general. Finally, persistently high-risk premia may require additional fiscal tightening, further weighing on growth.

**Monetary policy to remain easy next year…**

Our base line assumption is that the ECB will leave its refi rate at 1%, possibly lower for the next 12 months; the FedFunds will remain at 0.25% and the BoE's base rate at 0.5%. Given the delicate situation, we regard as unlikely that credible rate hike expectations will be priced in the course of next year. Hence, spreads between the 2Y and key policy rates are going to remain subdued.

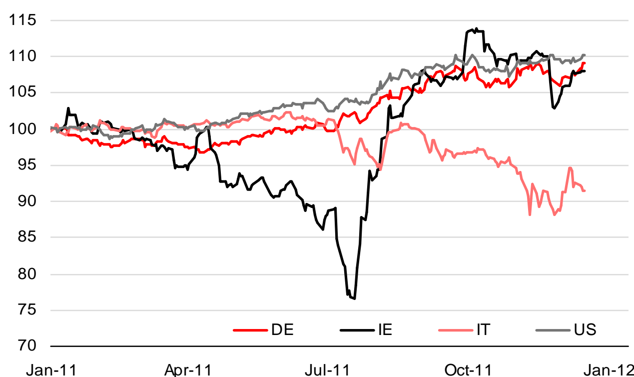
**… and ECB to keep liquidity abundant**

In the EMU, the ECB will keep liquidity abundant through the year, meaning that the OIS curve should trade relatively close to the depo rate (currently 0.25%). The 2Y Bund has traded with a (stable) negative spread vs. the 2Y OIS of 20bp over the last 18 months. As such, the target level for the 2Y Bund should be ca. 0.30/0.40%, with downside risks if the ECB cuts further.

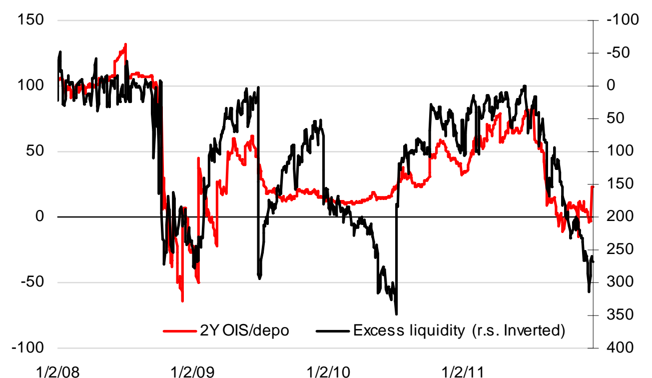
**2Y UST to trade with a modest premium over the FF…**

In the US, the Fed will keep the policy rates at 0.25% with a possible hike in the second half of 2013. We do not expect serious issues on the US fiscal situation to emerge next year.

**PERFORMANCE OF 10Y BONDS (CUMULATIVE TOTAL RETURNS)**




**EXCESS LIQUIDITY AND THE OIS CURVE**




Source: Bloomberg, UniCredit Research

As a result, we expect the 2Y UST to trade with a modest 10/20bp premium over the FedFunds. As a reference, the average spread since Jan09 has been 45bp.

In the longer end, the 10Y Bund has traded at around 2% since August. We expect a rise in yields to about 2.80% by the end of 2012. The exact timing of the rise will be highly dependent on policy decisions; we would expect most of the movement in H2.

**Compared to the US, uncertainty surrounding the 10Y Bund forecast is greater**. A worsening of the crisis (possibly followed by speculation about an EMU break-up) would send the 10Y Bund easily to the 1% area. On the other hand, a rapid improvement in the crisis would send the 10Y Bund to the 3% area faster than we are forecasting.

**10Y US: we expect a rise conditional of improvement in the EMY debt crisis**

10Y UST yields have traded at ca. 2% since the worsening of the crisis in August, considerably lower than the fair value suggested by models based on core inflation and growth indicators such as the ISM and GDP growth. **As we expect the debt crisis to improve during 2012, the 10Y should rise towards the fair value level**. We pencil in a 80/100bp rise by the end of 2012, mostly in the second half of the year.

**EU vs. US: We see the case for a modest US underperformance**

**Bunds and USTs trade flat at the 10Y maturity**. Looking forward, the main case where we would see Bunds underperforming USTs is a crisis resolution where Germany will bear a considerable share of the bill. However, we deem this scenario unlikely.

**Curve shape**

With short-term yields anchored to very low levels (both in the US and in the EMU) and improvements in the debt crisis, **we expect yield curves to remain steep in 2012**. We place a low probability to a bull flattening outcome which would stem from a prolonged period of weak data and steadily low inflation.

**Italy vs. Germany**

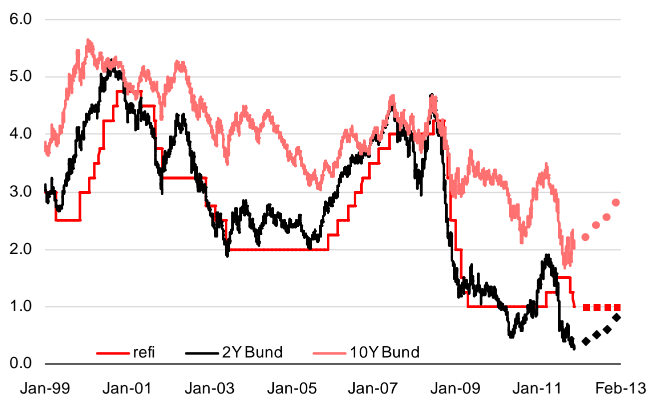
With German yields very low, and given our bias for an upward movement of the yield curve, it makes sense to turn the attention to periphery (and Italy especially).

BTP yields up to the 2Y maturity are between 4% and 6%, offering a hefty pick-up both vs. German yields and vs. the ECB cost of funding. The 3Y LTRO should provide some support to 2/3Y BTPs. Taking it to the extreme, even the most troubled countries have managed to keep the bill market functioning in 2011.

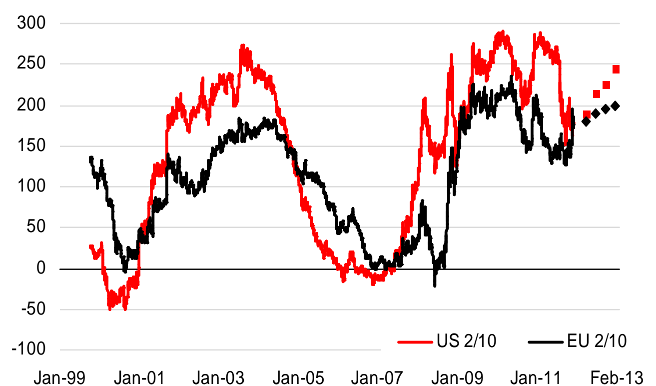
Recent Italian auctions have shown that demand for Italian bonds is solid (obviously at the cost of high yields). The high level of private savings/wealth in Italy should be a supportive factor for next year funding needs.

The left chart below shows that a portfolio consisting of 6M BOTs (20%) and 6M Bubills (80%) would have the same yield as one 100% made of 5Y Obl.

**EMU YIELDS: OUR FORECASTS**




**2-10Y SPREAD IN EMU AND US**




Source: Bloomberg, UniCredit Research

**We prefer Austria to France**

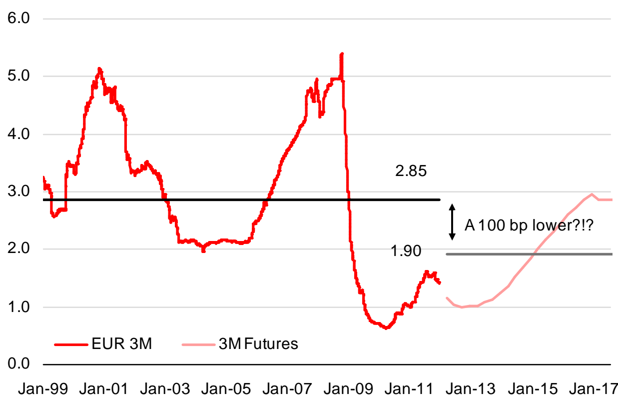
Another relative value opportunity we see within the EMU is Austria vs. France. The latter has a weaker outlook than Austria both in terms of growth and public finance. Moreover, France has a higher rating risk than Austria (S&P has indicated that it could downgrade France by up to two notches, while it would only downgrade Austria by up to one notch). While RAGBs have already richened vs. Btan/OATs over the last few weeks, we see more room for further richening in the next months at all maturities. We would prefer the 2018/2019 maturities, where Austria is still trading slightly cheaper/in line with France, so we see more room for a potential tightening (at least by 15/20bp).

**Euribor contracts over the next 5Y: 100bp lower than historical average**

Finally, **Euribor contracts have fallen to considerably low levels in the recent month**, due to negative market mood. The chart below shows that **current market levels imply an average for the 3M over the next five years** which is **almost 100bp lower than the** (so far) realized **historical average**. We have little doubt that if our scenario for the crisis materializes, there will be a repricing of expectations. As such, **we would pay fixed and receive float in a 5Y swap**.

Furthermore, this situation can offer a good opportunity to those investors wishing to implement some yield enhancement strategies. An example would be buying a structure offering a (high) fixed coupon in the first two years and Euribor – a spread in the following years. This structure would bet on a rise in Euribor/ECB rates after the crisis is sorted out.

**EURIBOR EXPECTATIONS ARE VERY SUBDUED!**




The black line denotes the historical average, the grey line denotes the average of 3M Euribor contracts over the next 5Y

**20% OF BOTS AND 80% OF BUBILS TO YIELD THE SAME AS A 5Y OBL**

The line shows the percentage of 6M BOTs required in a portfolio made up of 6M Italian and German bills to equate the yield of a 5Y Obl:

5Y OBL = α * 6M BOT + (1-α) * 6M Bubill

Source: Bloomberg, UniCredit Research

**FX: More EUR-USD weakness, at least through 1H12**

In the FX space we see **further Euro weakness** as the robustness during much of 2011 – driven by banks' repatriation of assets – comes to an end.

After 5-7 difficult years, t**he overvaluation of the euro seems finally over** – and if followed by a period of undervaluation then that should be good for growth, compared with our base case scenario.

Hence, **a further drop at least in the 1.30-1.25 band and with risks to the downside should be the main theme for 1H12**, due to new economic data confirming that the US picture is probably improving at a faster pace than the EU and the ECB proving more accommodative than the Fed.

The less tense market conditions we foresee in 2H12 should allow a EUR-USD pullback, but a still sluggish EMU growth picture should prevent a much sustained rally into 2013.

**CHF: More franc weakness, but not at a quick pace**

We expect **more CHF weakness over time, but not at a quick pace.** The floor at 1.20 the SNB set for EUR-CHF early in September is credible and (wisely) investors have never showed any intent to test its solidity.

However, **a weaker EUR-USD in 1H12 will unavoidably be an obstacle to a rapid and sustained EUR-CHF rally.** Yet, given the strong and explicit commitment of the SNB to assure a weaker franc over time, we still pencil in EUR-CHF up to 1.32 for next year.

Higher values towards 1.40 we expect in 2013 could be brought forward only if the SNB prove more aggressive in its FX strategy, increasing the current floor at 1.20 to 1.30 (a hypothesis still not included in our scenario, given the expected risk picture, but frequently heard in the market).

**GBP: Cable to suffer further at least during 1H12; EUR-GBP to remain in a tight trading range**

The picture for **cable** is quite similar to the one outlined for EUR-USD. Sterling will further suffer against the dollar in 1H12, as global risk aversion will maintain the USD on a healthy tone and the BoE will continue its APP strategy due to new evidence of the bleak growth picture at home. **A drop even below 1.50 is possible** also taking into account that cable's PPP value is at around 1.43. On the other hand, 2H12 should be more encouraging due to the less tensed financial market environment we imagine, but a still sluggish UK economy will dampen a cable's rebound much above 1.60.

# Commodity Outlook

## Moderately bullish

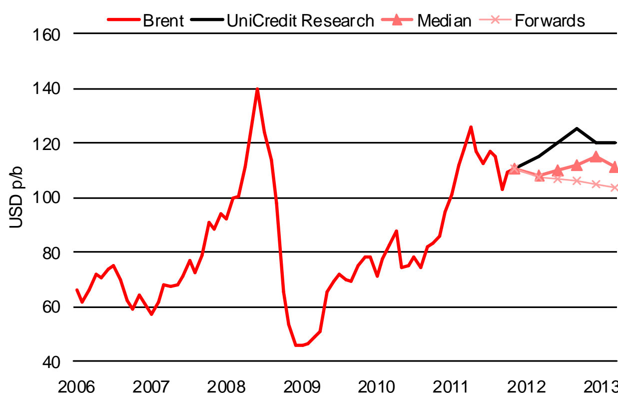
Jochen Hitzfeld
(UniCredit Bank)
+49 89 378 18709
Jochen.hitzfeld@unicreditgroup.de

In 2011, the price of oil will set a new record in terms of its average for the year and generate record revenues for OPEC in excess of USD 1tn. We expect that strong structural forces will also continue to drive the oil price higher in 2012/13. **On average for 2012 we expect an oil price (Brent) of USD 120, and for 2013 even USD 125 per barrel**.

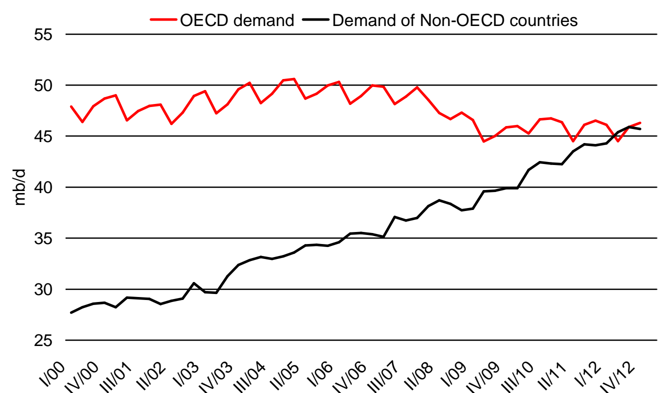
In 2012, demand from Emerging Markets should outstrip that from the industrialized countries for the first time. In the process, it will become increasingly difficult to satisfy China's growing needs. Thus far, only Russia was able to do this. However, Russian crude oil production is stagnating and could even decline over the medium term. Each year, China must, therefore, obtain 500-600 kb/d from other sources, which will see the competition for newly developed oil fields heat up considerably. The whole production side is an uphill battle. According to the International Energy Agency, production from existing crude oil sources will decline from 69.3 mb/d to 22 mb/d by 2035. As a result, eight times the current capacity of Saudi Arabia will have to be newly developed by 2035 to offset the decline and to cover the strong consumption growth in Emerging Markets. This requires huge investment, which will be no easy task, especially during the current financial crisis. Moreover, tensions in the Middle East will continue to dominate the news in forthcoming months. The International Atomic Energy Agency is calling on Iran to clarify all still open questions concerning its military nuclear program by March. Over the longer term as well, the market will price in a risk premium for the uncertain situation in the Persian Gulf. Last but not least, we expect that WTI will no longer be a cheap alternative for Brent. The reversal of the direction of flow in the Seaway Pipeline permits the transportation of crude oil (WTI) from Cushing/Oklahoma to the Gulf of Mexico. **The spread between Brent and WTI will therefore narrow. We are raising our target price (WTI) for 2012 from USD 98 to USD 110 per barrel**.

**Brent-WTI spread set to narrow**

**OIL PRICE FORECAST**




**OIL DEMAND: OECD VS NON-OECD COUNTRIES**




Source: Bloomberg, IEA, UniCredit Research

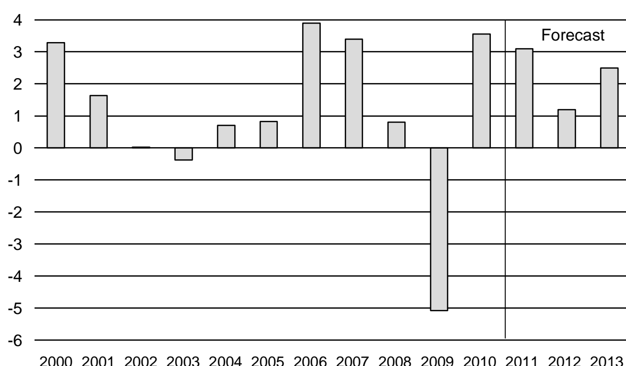
# Annex: Country Outlook

## Germany – Slowing down but not crashing

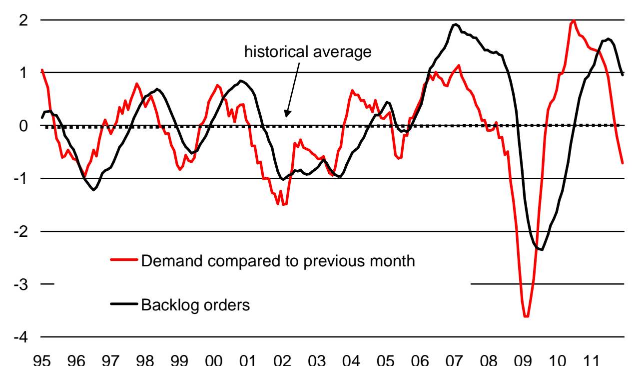
Andreas Rees
(UniCredit Bank)
+49 89 378-12576
andreas.rees@unicreditgroup.de

- We expect the German economy to grow 1.2% in 2012 after 3.1% this year (each figure on a working-day adjusted basis, see left chart). Despite the substantial loss in momentum and significant downside risks, we stick to our view that a recession can be avoided. In any case, a Lehman 2.0 scenario with plunging economic activity remains very unlikely. After posting meager growth from 4Q11 to 2Q12 (+0.2% qoq each), we expect a gradual reacceleration afterwards. For 2013, our growth forecast is 2.5%.
- Major reason for the slowdown underway is the cooling down of the global economy and hence far less dynamic German export growth. Besides tensions on financial markets due to the European debt crisis, less brisk growth in Emerging Asia has been dampening as well. However, we do not expect German industrial activity to collapse. Although foreign demand has decelerated substantially, backlog orders are still at elevated levels (see right chart). This in turn will soften the slowdown. Since backlog orders can be worked off by companies in the next few months, further – at least moderate – rises in industrial production (on average) are likely.
- German domestic demand cannot completely decouple from global headwinds. However, we expect investment activity and private consumer expenditures to hold up comparatively well. Companies' propensity to expand their capex peaked but remained at historically high levels. The same is true for employers' willingness to hire additional people. The pending slowdown in inflation (2012: +1.8% after +2.3% this year) accompanied by wage rises of 2.5% in 2012 provides additional support for households' purchasing power.
- We expect reaccelerating German export growth from 2H12 onwards. Besides a gradual recovery in the eurozone, one trigger for the turnaround should be emerging markets. Already strongly declining inflation rates and further easing of monetary policy should support emerging market economies in a few months' time.
- Risks to our forecasts (especially for 2012) are on the downside. A further escalation of the European debt crisis could weigh strongly both on German exports and domestic demand. Additional spending cuts or higher-than-expected fiscal multipliers in some EMU countries may additionally harm German exporters. If risk aversion on financial markets strongly spills over into the real economy, domestic demand could be negatively affected as well. Both companies and private households may want to play it safe, thereby postponing investment activity and purchases of consumer durables. In this risk scenario, a severe downturn would almost become a self-fulfilling prophecy.

**REAL GDP (WDA, IN % YOY)**




**IFO MANUFACTURING (3M-MA; STANDARDIZED)**




Source: Ifo, UniCredit Research

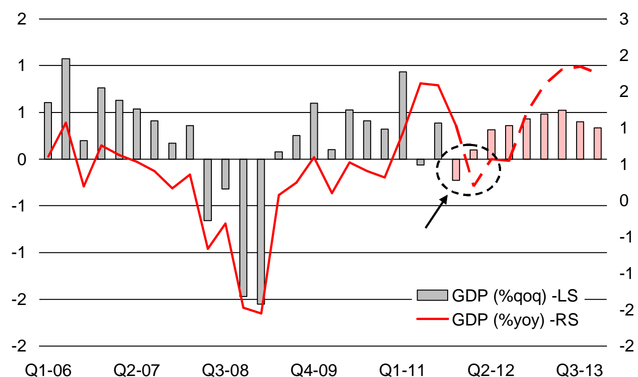
## France – Testing times

Tullia Bucco
(UniCredit Bank Milan)
+39 02 8862-2079
tullia.bucco@unicredit.eu

- As the year draws to a close, France is preparing for the worst: losing its triple A rating. The recent change in the French government's rhetoric about the possibility of a downgrade has been read as an indication that the move may be imminent. President Sarkozy commented that a downgrade would add to existing difficulties but would not be insurmountable. Rumors that rating agencies are considering action on France have been circulating for a while now, fuelled by a sharp widening of the spread of French OATs vs. Bunds as the sovereign debt crisis intensified. However, S&P's recent decision to place France (and the other eurozone AAA countries) under review with negative implications fuelled speculation. Whether the rumor will be followed by any action is contentious. Any impending credit assessment of France risks relying on factors that are currently beyond the scope of the sovereign's powers. At the margin, we highlight that the market is seemingly already pricing in a one-notch downgrade of France's credit outlook, possibly reflecting concern about French banks' large exposure to ailing peers, particularly Italy.
- Earlier this fall, President Sarkozy asked Prime Minister Fillon to beef-up the multi-year consolidation plan in order to reassure markets that the government is strongly committed to reducing the deficit from the 5.7% forecasted for this year to 3.0% by 2013. Those who were unimpressed by the 2012 Budget Law may fail to perceive the catch-22 situation in which France is in: a moderate fiscal adjustment plan could be insufficient to reassure markets, but harsher austerity measures may risk plunging the economy into recession, partly reversing the benefits to the debt to GDP ratio, i.e. the fiscal reading most closely-watched by rating agencies. Taking into account the measures announced, our baseline scenario foresees GDP expanding 0.6% in 2012 vs. 1.6% in 2011. We also acknowledge that it would have been difficult for the government to put forward bolder structural measures targeting the longer-term sustainability of public finances in the run-up to the general elections (scheduled for April/May 2012). Sarkozy's popularity had been on a declining trend, causing him to lose his majority in the upper house of parliament. It also forced him to abandon the idea of enshrining a budget-balancing "golden rule" in the French constitution.
- In this tense environment, upcoming elections represent a terrific opportunity to initiate a sound political debate about the difficulties the country is facing and the structural bottlenecks that are constraining its GDP potential. Sarkozy's strategy to pile up reform measures with the hope that these could eventually reach the "critical mass" needed to spur growth has spectacularly showed its limits. This is apparent in Sarkozy's reformulation of his old slogan "work less to earn more" to "earn less or work more". The time has perhaps come to tell voters that France's welfare model is no longer sustainable and it has to be changed. It won't be easy but it is the only way to go. Good luck!

**MARKET PRESSURE REMAINS HIGH…**

**…AS GDP ENTERS A SOFT PATCH**




Source: Bloomberg, INSEE, UniCredit Research

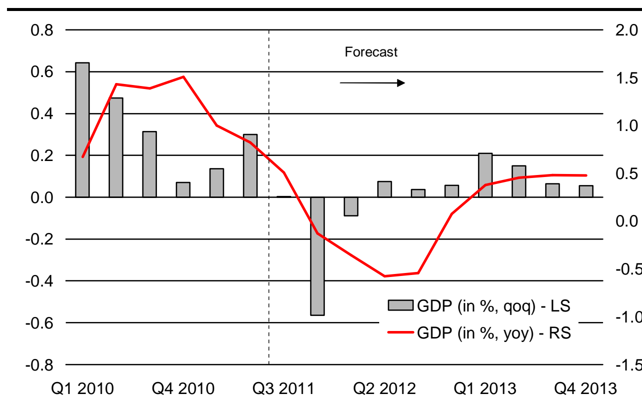
## Italy – Lagging behind

Chiara Corsa
(UniCredit Bank Milan)
+39 02 8862 2209
chiara.corsa@unicredit.eu

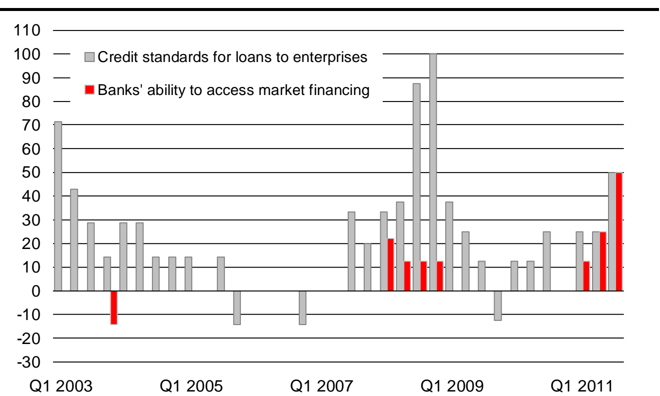
Loredana Federico
(UniCredit Bank Milan)
+39 02 8862 3180
loredana.federico@unicredit.eu

- Recent developments point to a significant deterioration in the growth outlook for 2H11 and beyond. In the very short term, we expect GDP to contract by -0.6% in 4Q, with some downside risks on this number. In yearly average terms, we stick to our 2011 GDP forecasts of 0.6%[2]. We expect a technical recession at the turn of the year, as GDP will also likely shrink in 1Q12, although at a more moderate pace. In yearly average terms, we see GDP contracting by 0.3% in 2012 and expanding by a modest +0.4% in 2013. On top of a stronger-than-expected slowdown in global growth, the Italian economy is facing three main headwinds that will affect domestic demand prospects.
- First, ongoing tensions in financial markets are already affecting and will continue to affect economic activity via a confidence channel, as firms and consumers put their investment and spending plans on hold. Both consumer and business confidence indicators experienced a steady downward trend before the tentative recovery in November.
- The second headwind the Italian economy will face is the negative feedback loop between the severe escalation in the sovereign debt crisis and the banking sector. Ongoing tensions on the sovereign debt market have already had a material impact on Italian banks' ability to raise funds and on their funding costs. These difficulties will affect growth prospects through both stricter financing conditions for the private sector, and the need for Italian banks to increase their capital ratios. The latest Bank Lending Survey highlights that during the summer, Italian banks significantly tightened their credit standards on corporate loans, with supply factors, such as their ability to access market financing, playing a major role (see right chart). The output loss induced by banks' additional capital requirements (a 9% CT1 ratio by mid-2012) should be overall contained, and will probably materialize starting in 2H12. Our working assumption is that the GDP impact of higher capital requirements should be 0.2pp in 2013, with a somewhat smaller effect in 2012.
- Last but not least, the significant fiscal tightening implemented over the last five months, will also have a further detrimental impact on growth both in 2012 and 2013. The austerity package unveiled by the new government, headed by Mario Monti, is worth a cumulative EUR 21.4bn in 2012-2014. Assuming fiscal multipliers of 0.5, the GDP drag of this fiscal consolidation will be worth a cumulative 0.5pp over the next two years. This comes on top of the austerity package passed this summer (which envisaged an adjustment worth EUR 59.8bn until 2014), and should allow Italy to reach the goal of a balanced budget by 2013 – the deficit target for 2012 should be around 1.5%, following 3.8% this year. The debt/GDP ratio is expected to start declining in 2012 (to 118.8%, from 120.0% in 2011) and reach 112.5% in 2014.

**AN UNFAVORABLE SHORT-TERM OUTLOOK**




**TIGHTENING OF CREDIT STANDARDS RE-ACCELERATES**




Source: ISTAT, Bank of Italy, UniCredit Research

[2] This estimate is subject to some uncertainty due to a recent methodological revision of past GDP numbers (in particular that 2010 GDP growth was revised up to 1.5% from the previous 1.2%). Note also that ISTAT has only published the revised yearly figures, while the quarterly profile will be released on 21 December.

# UniCredit Forecasts

## GROSS DOMESTIC PRODUCT

| % yoy | ACTUAL | | | UniCredit | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
| UNITED STATES | -0.3 | -3.5 | 3.0 | 1.8 | 2.0 | 2.3 |
| JAPAN | -1.1 | -5.5 | 4.5 | -0.5 | 2.0 | 1.8 |
| CHINA | 9.6 | 9.2 | 10.4 | 9.2 | 8.5 | 9.5 |
| EURO ZONE | 0.3 | -4.2 | 1.8 | 1.6 | 0.6 | 1.6 |
| GERMANY | 0.8 | -5.1 | 3.6 | 3.1 | 1.2 | 2.5 |
| ITALY | -1.3 | -5.2 | 1.2 | 0.6 | -0.3 | 0.4 |
| FRANCE | -0.2 | -2.6 | 1.4 | 1.6 | 0.6 | 1.7 |
| SPAIN | 0.9 | -3.7 | -0.1 | 0.7 | 0.1 | 1.2 |
| AUSTRIA | 2.2 | -3.9 | 2.3 | 3.3 | 0.8 | 2.0 |
| SWEDEN | -0.8 | -5.1 | 5.3 | 4.4 | 1.8 | 2.5 |
| NORWAY (mainland) | 1.4 | -1.6 | 1.8 | 2.4 | 2.6 | 2.9 |
| UNITED KINGDOM | -1.1 | -4.4 | 1.8 | 0.9 | 0.8 | 1.5 |
| SWITZERLAND | 2.1 | -1.9 | 2.7 | 1.8 | 0.3 | 1.6 |

## CONSUMER PRICE INDEX

| % yoy | ACTUAL | | | UniCredit | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
| UNITED STATES | 3.8 | -0.3 | 1.6 | 3.2 | 2.1 | 2.3 |
| JAPAN | 1.4 | -1.4 | -0.7 | -0.3 | -0.3 | 0.1 |
| CHINA | 5.9 | -0.7 | 3.3 | 5.6 | 3.5 | 3.2 |
| EURO ZONE | 3.3 | 0.3 | 1.6 | 2.7 | 2.0 | 1.9 |
| GERMANY | 2.6 | 0.4 | 1.1 | 2.3 | 1.8 | 1.8 |
| ITALY | 3.3 | 0.8 | 1.5 | 2.7 | 2.4 | 1.7 |
| FRANCE | 2.8 | 0.1 | 1.5 | 2.1 | 1.8 | 1.7 |
| SPAIN | 4.1 | -0.3 | 1.8 | 3.0 | 1.5 | 1.6 |
| AUSTRIA | 3.2 | 0.5 | 1.9 | 3.2 | 2.2 | 2.0 |
| SWEDEN | 3.5 | -0.3 | 1.3 | 3.0 | 2.0 | 2.1 |
| NORWAY | 3.8 | 2.2 | 2.4 | 1.5 | 1.8 | 1.9 |
| UNITED KINGDOM | 3.6 | 2.1 | 3.3 | 4.5 | 2.8 | 2.2 |
| SWITZERLAND | 2.4 | -0.5 | 0.7 | 0.2 | -0.5 | 1.2 |

## INTEREST AND EXCHANGE RATE FORECASTS

| | EU | | | | | US | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Mar-12 | Jun-12 | Sep-12 | Dec-12 | | Current | Mar-12 | Jun-12 | Sep-12 | Dec-12 |
| **Key rate** | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | **Key rate** | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| **3M** | 1.42 | 1.25 | 1.15 | 1.15 | 1.15 | **3M** | 0.56 | 0.55 | 0.40 | 0.40 | 0.40 |
| **2Y** | 0.27 | 0.40 | 0.50 | 0.60 | 0.80 | **2Y** | 0.24 | 0.30 | 0.35 | 0.45 | 0.55 |
| **10Y** | 1.93 | 2.20 | 2.40 | 2.55 | 2.80 | **10Y** | 1.88 | 2.20 | 2.50 | 2.70 | 3.00 |
| **2/10** | 166 | 180 | 190 | 195 | 200 | **2/10** | 164 | 190 | 215 | 225 | 245 |
| **10Y SwSp** | 55 | 50 | 40 | 30 | 30 | **10Y SwSp** | 15 | 15 | 15 | 15 | 15 |
| | UK | | | | | | SZ | | | | |
| | Current | Mar-12 | Jun-12 | Sep-12 | Dec-12 | | Current | Mar-12 | Jun-12 | Sep-12 | Dec-12 |
| **Key rate** | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | **Key rate** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **3M** | 1.06 | 1.05 | 0.95 | 0.95 | 0.95 | **3M** | 0.05 | 0.05 | 0.05 | 0.10 | 0.10 |
| **2Y** | 0.36 | 0.50 | 0.60 | 0.70 | 0.85 | **2Y** | 0.03 | 0.05 | 0.05 | 0.20 | 0.40 |
| **10Y** | 2.09 | 2.30 | 2.65 | 2.85 | 3.15 | **10Y** | 0.74 | 0.70 | 0.70 | 0.90 | 1.10 |
| **2/10** | 173 | 180 | 205 | 215 | 230 | **2/10** | 71 | 65 | 65 | 70 | 70 |
| **10Y SwSp** | 28 | 30 | 30 | 20 | 20 | **10Y SwSp** | 53 | 50 | 45 | 35 | 35 |

## FX FORECASTS

| **vs. EUR** | Current | Mar-12 | Jun-12 | Sep-12 | Dec-12 | vs. USD | Current | Mar-12 | Jun-12 | Sep-12 | Dec-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **EUR-USD** | 1.30 | 1.30 | 1.28 | 1.33 | 1.37 | **EUR-USD** | 1.30 | 1.30 | 1.28 | 1.33 | 1.37 |
| **EUR-JPY** | 101 | 101 | 100 | 105 | 110 | **USD-JPY** | 78 | 78 | 78 | 79 | 80 |
| **EUR-GBP** | 0.84 | 0.85 | 0.85 | 0.86 | 0.86 | **GBP-USD** | 1.55 | 1.53 | 1.50 | 1.55 | 1.60 |
| **EUR-CHF** | 1.23 | 1.25 | 1.27 | 1.30 | 1.32 | **USD-CHF** | 0.94 | 0.96 | 0.99 | 0.98 | 0.96 |

Source: Bloomberg, UniCredit Research

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

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h) Zagrebačka banka, Paromlinska 2, HR-10000 Zagreb, Croatia
Regulatory authority: Croatian Agency for Supervision of Financial Services, Miramarska 24B, 10000 Zagreb, Croatia

i) UniCredit Bank, Na Príkope 858/20, CZ-11121 Prague, Czech Republic
Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic

j) Bank Pekao, ul. Grzybowska 53/57, PL-00-950 Warsaw, Poland
Regulatory authority: Polish Financial Supervision Authority, Plac Powstańców Warszawy 1, 00-950 Warsaw, Poland

k) UniCredit Bank, Prechistenskaya emb. 9, RF-19034 Moscow, Russia
Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

l) UniCredit Bank, Šancova 1/A, SK-813 33 Bratislava, Slovakia
Regulatory authority: National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia

m) Yapi Kredi, Yapi Kredi Plaza D Blok, Levent, TR-80620 Istanbul, Turkey
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n) UniCredit Tiriac Bank, Ghetarilor Street 23-25, RO-014106 Bucharest 1,Romania
Regulatory authority: CNVM, Romanian National Securities Commission, Foişorului street, no.2, sector 3, Bucharest, Romania

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## UniCredit Research*

Michael Baptista
Global Head of Research
+44 207 826-1328
michael.baptista@unicredit.eu

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

## Economics & FI/FX Research

Erik F. Nielsen, Global Chief Economist
+44 207 826 1765
erik.nielsen@unicredit.eu

### Economics & Commodity Research

**European Economics**

Marco Valli, Chief Eurozone Economist
+39 02 8862-8688
marco.valli@unicredit.eu

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

Stefan Bruckbauer, Chief Austrian Economist
+43 50505 41951
stefan.bruckbauer@unicreditgroup.at

Tullia Bucco
+39 02 8862-2079
tullia.bucco@unicredit.eu

Chiara Corsa
+39 02 8862-2209
chiara.corsa@unicredit.eu

Dr. Loredana Federico
+39 02 8862-3180
loredana.federico@unicredit.eu

Mauro Giorgio Marrano
+39 02 8862-8222
mauro.giorgiomarrano@unicredit.eu

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

Chiara Silvestre
chiara.silvestre@unicredit.eu

**US Economics**

Dr. Harm Bandholz, CFA, Chief US Economist
+1 212 672 5957
harm.bandholz@unicredit.eu

**Commodity Research**

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

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

### EEMEA Economics & FI/FX Strategy

Gillian Edgeworth, Chief EEMEA Economist
+44 0207 826 1772, gillian.edgeworth@unicredit.eu

Gyula Toth, Head of EEMEA FI/FX Strategy
+43 50505 823-62, gyula.toth@unicreditgroup.at

Artem Arkhipov, Head of Macroeconomic Analysis and Research, Russia
+7 495 258-7258, artem.arkhipov@unicreditgroup.ru

Güldem Atabay, Economist, Turkey
+90 212 385 9551, guldem.atabay@unicreditgroup.com.tr

Dan Bucsa, Economist, Romania
+40 21 203-2376, dan.bucsa@unicredit.ro

Hans Holzhacker, Chief Economist, Kazakhstan
+7 727 244-1463, h.holzhacker@atfbank.kz

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

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

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

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

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

Dmitry Veselov, Ph.D., Economist, EEMEA
+44 207 826 1808, dmitry.veselov@unicredit.eu

Vladimír Zlacký, Chief Economist, Slovakia
+421 2 4950-2267, vladimir.zlacky@unicreditgroup.sk

### Global FI/FX Strategy

Michael Rottmann, Head
+49 89 378-15121, michael.rottmann1@unicreditgroup.de

Dr. Luca Cazzulani, Deputy Head, FI Strategy
+39 02 8862-0640, luca.cazzulani@unicredit.eu

Chiara Cremonesi, FI Strategy
+44 20 7826-1771, chiara.cremonesi@unicredit.eu

Elia Lattuga, FI Strategy
+39 02 8862-2027, elia.lattuga@unicredit.eu

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

Roberto Mialich, FX Strategy
+39 02 8862-0658, roberto.mialich@unicredit.eu

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

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

## Publication Address

**UniCredit Research**
Corporate & Investment Banking
UniCredit Bank AG Milan Branch
Economics & FI/FX Research
Via Tommaso Grossi, 10 - 20121 Milan
Tel +39 02 8862.2019 - Fax +39 02 8862.2585

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