

Macro April

Key issues

- Real economic recovery
- Long yields
- Equity index targets
- Russia FX and rates

PMIs very strong

US recovery moving to consumer/investment

- 3.6% of the 5.6% US growth in 4Q was due to inventory
 - Consumption, investment (housing could be important) should now pick up, but inventory will go down in H2, and so will fiscal
 - FED will reign in credit measures

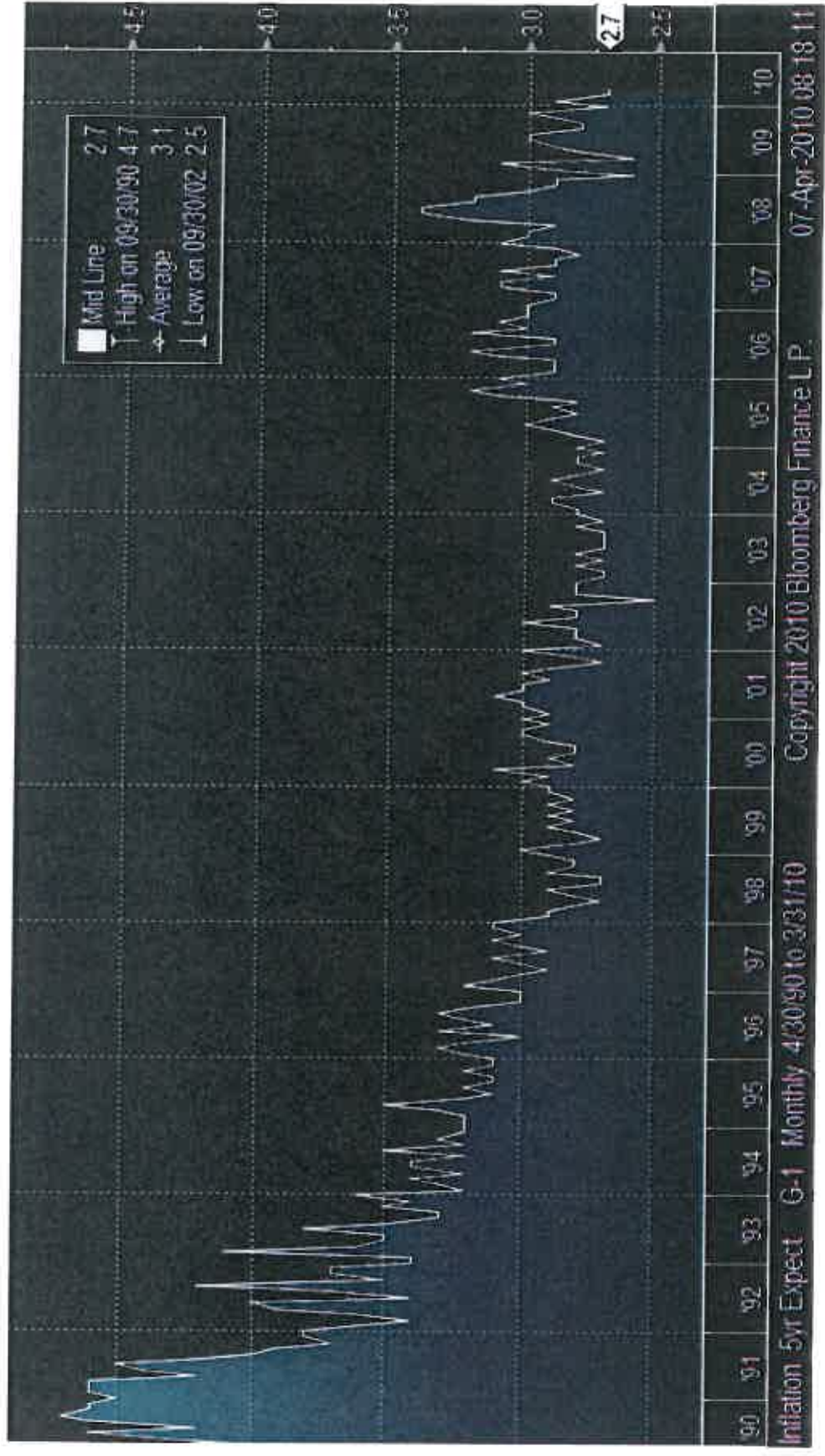
PIIGs will remain hangover

- What would the IMF would do outside the euro zone with a Greece like situation:
 - Option 1:
 - Fiscal austerity, around 10% GDP, and large external funding for three years (say 150bn euros – part via the ECB window, but a large package needed)
 - Prepare “Plan B” in case it fails
 - Option 2:
 - Default but stay in eurozone: large funding required + emergency bank liquidity program so very unlikely to work
 - Option 3:
 - Default and leave eurozone: can be done without funding

Rates

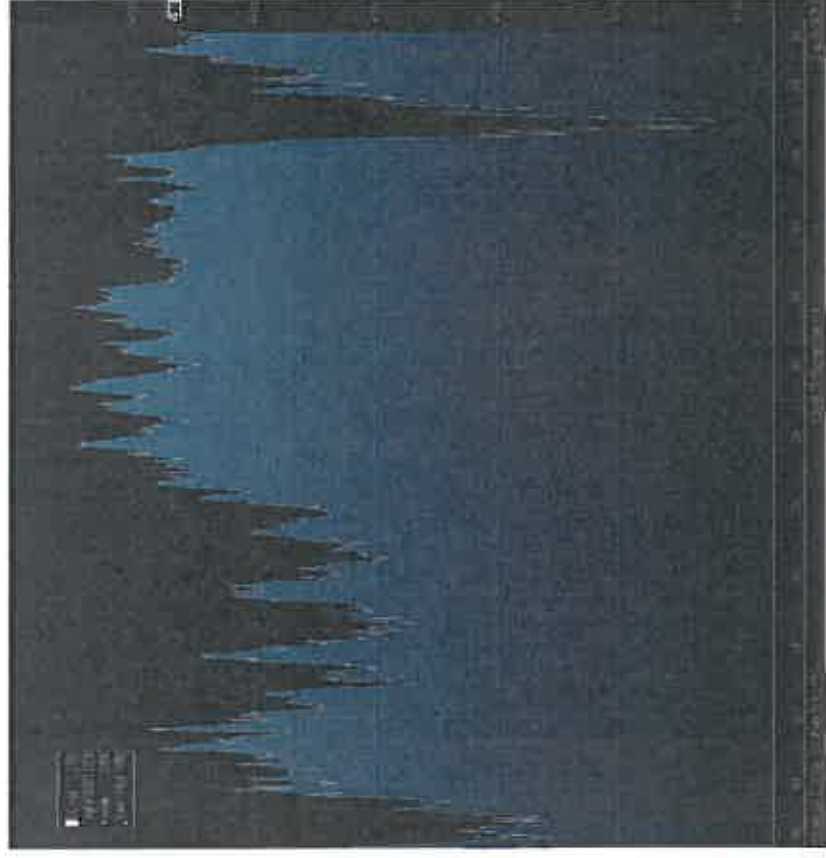
- Large excess capacity in US and Europe should keep policy rates low
 - Recent backup of long end of yield curve mostly due to inflation expectations
- Regulation could keep yield curve steep (PIMCO)
 - Not much evidence of this, and would imply real rates are high not the break even inflation rate

Michigan 5-10yr inflation expectations

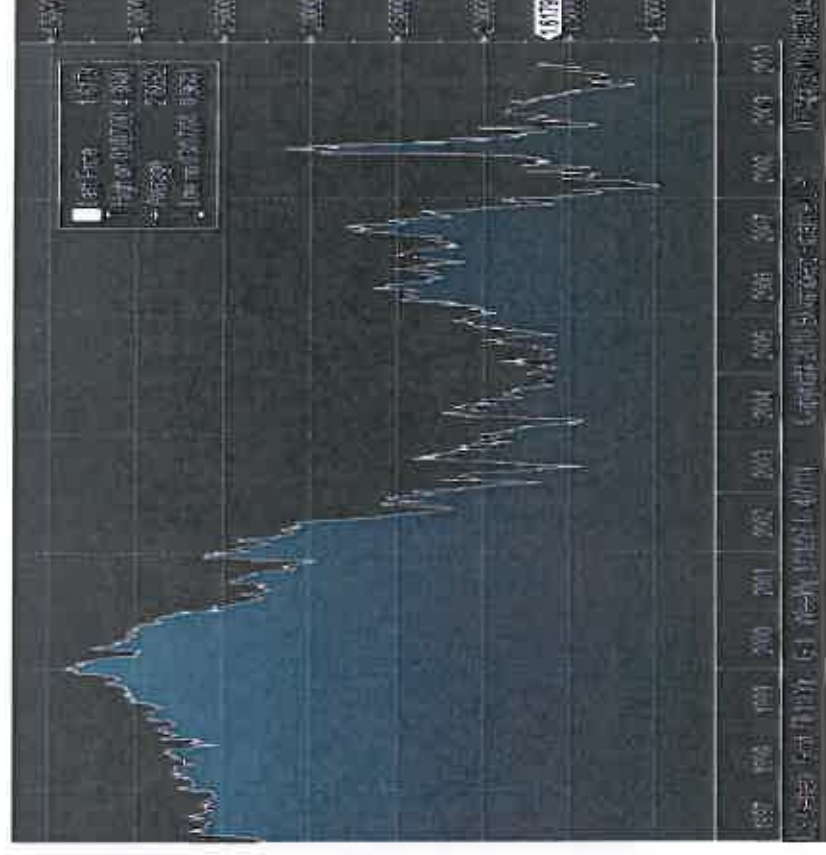


Inflation expectations and real rates

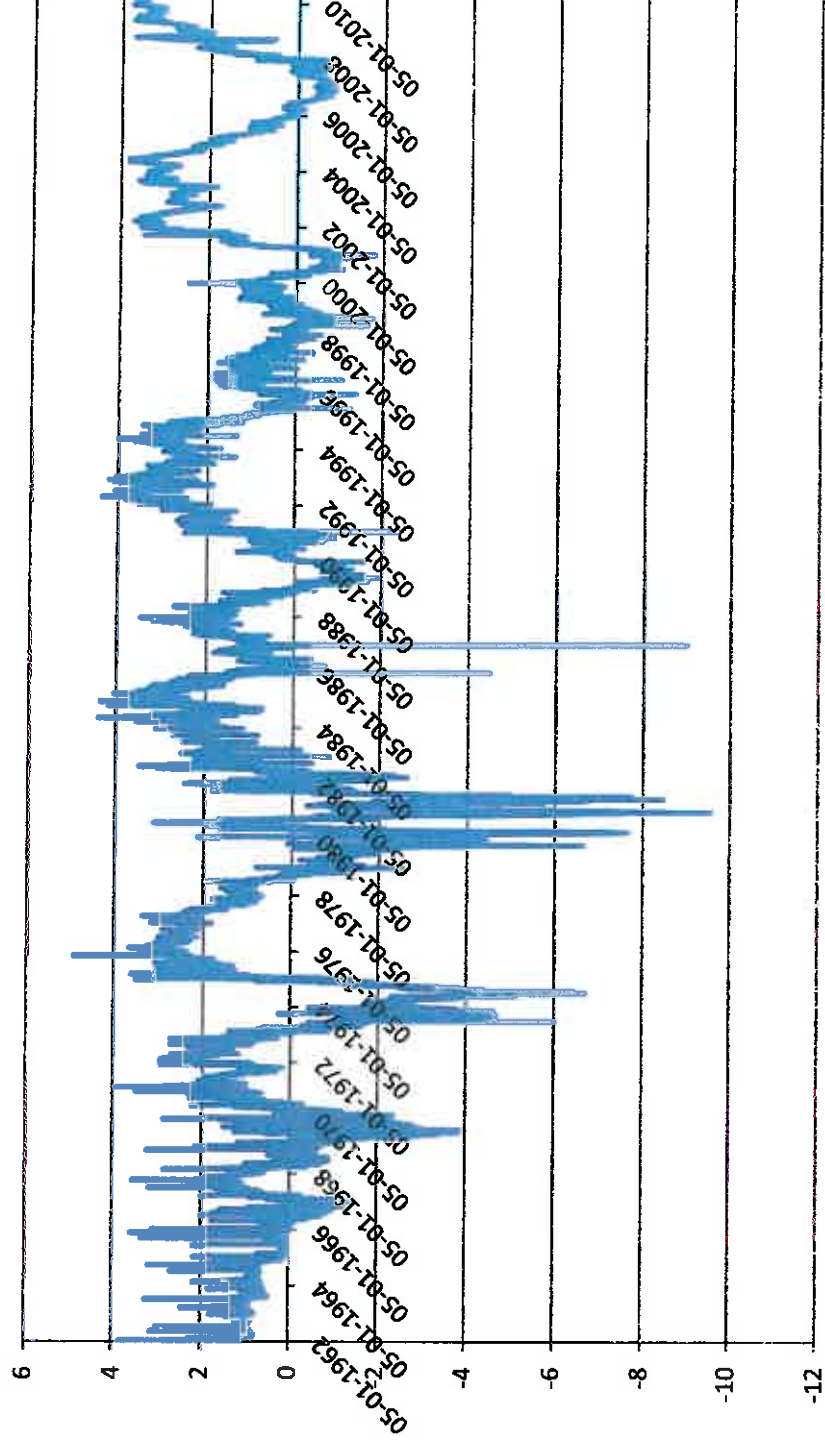
Break even 10 yr Inflation



10 YR inflation protected rates



Historical 10yr-Fed when finance was
more regulated

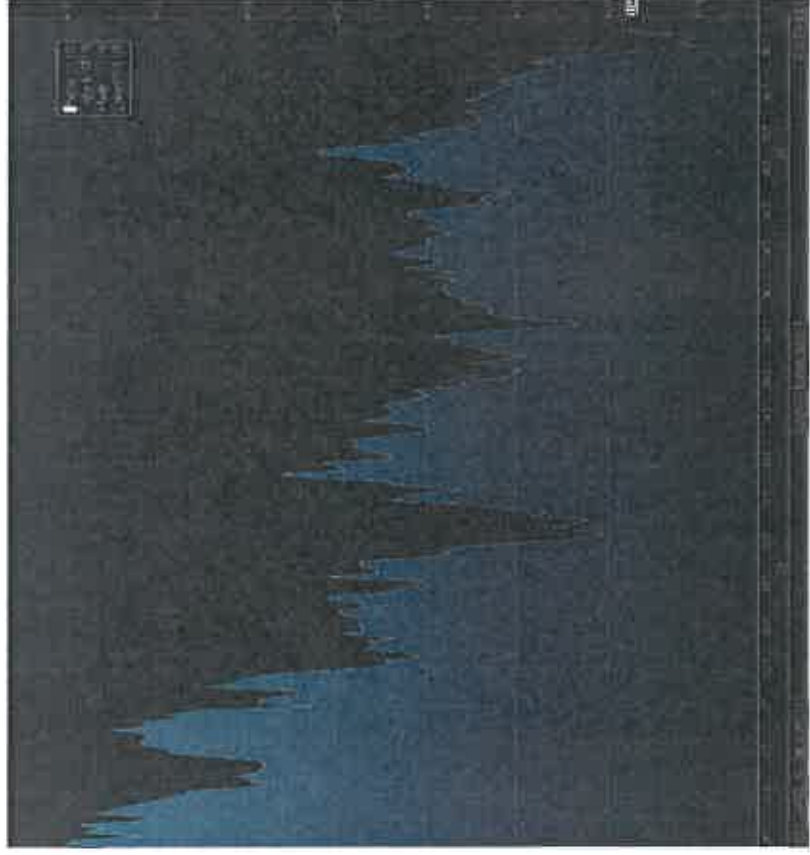


Steep yield curve

- Market: stays for 3 more years with FED rates rising gradually
- GS: stays for 3 more years with long end coming in
- PIMCO: Regulation keeps it steep
 - All views are good for banks
 - especially the junior debt under a PIMCO/GS view

DEM 10 yr yields

Inflation protected yields



Break even inflation



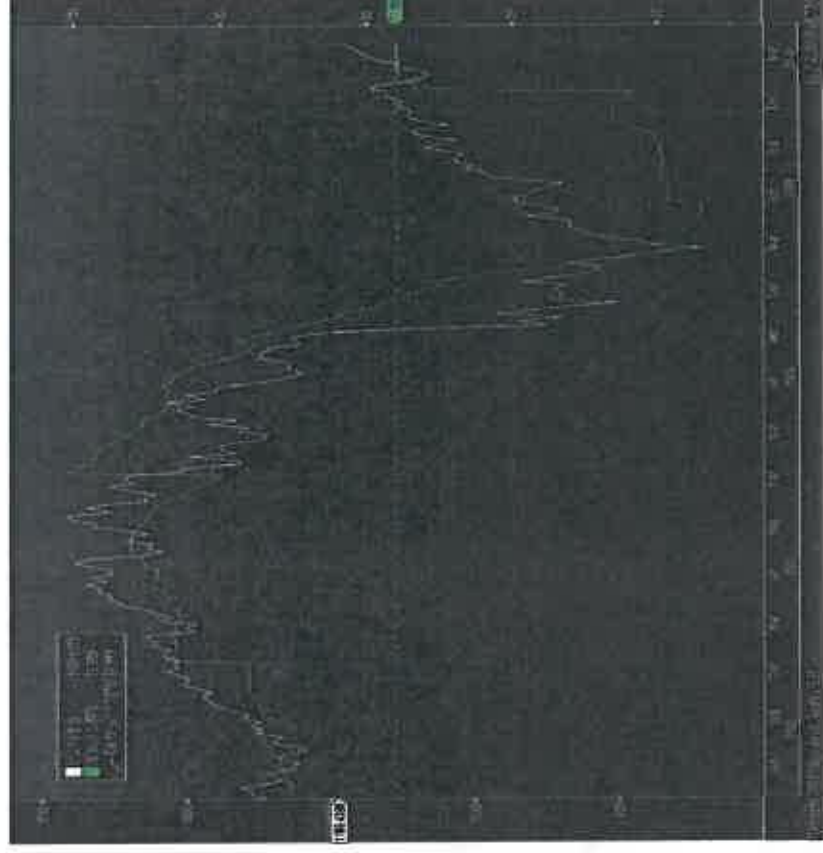
Index targets

- Earnings is the main driver for an upgrade
- Equity risk premiums will fall but rates will rise

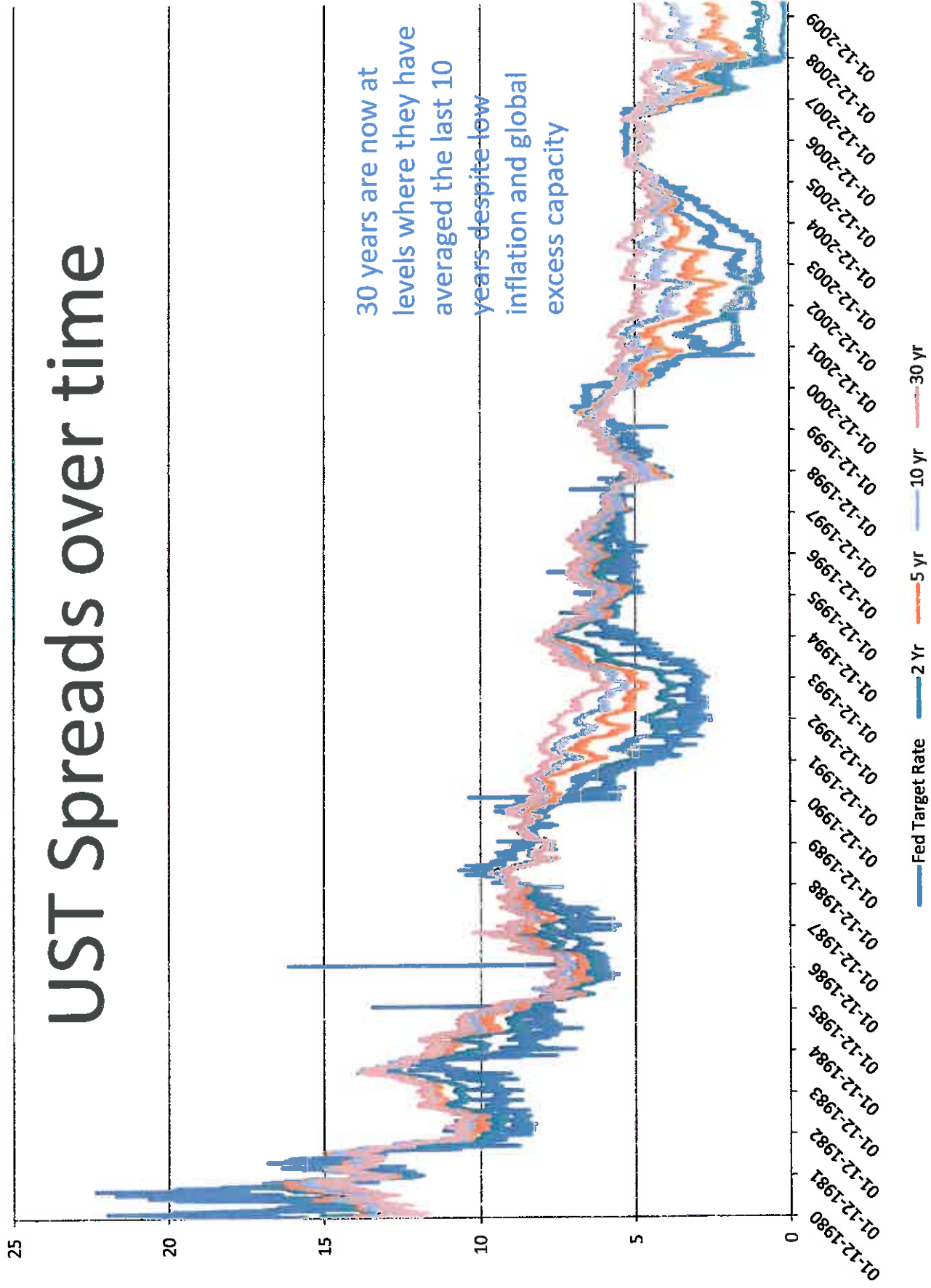
S&P valuations

Green: LTM PE, Red: EST 2010

Green: Est. EPS Grey: S&P



UST Spreads over time



US targets

	2009	2010	2011	2012	2013
SCENARIO 1					
DEFIATION					
WTI Crude Spot	80.00	60.00	66.75	67.50	67.50
USD Inflation (Dec-Dec)	-0.5%	0.0%	-2.0%	1.5%	1.5%
FED rate	0.25%	0.25%	0.25%	0.25%	1.00%
Treasuries yield curve					
1Y	0.48	0.50	0.50	0.75	1.25
2Y	1.13	0.80	0.80	1.00	1.75
5Y	2.69	1.30	1.30	1.50	2.25
10Y	3.95	3.25	3.25	3.25	3.25
30Y	4.83	4.00	4.00	4.00	4.00
US 10 yr real rate	1.7	1.5	1.5	1.5	1.5
Long run real earnings growth S&P	0.0	0.0	0.0	1.0	1.0
ERP S&P	5.75	5.5	5.5	5.5	5.5
S&P PE	24.8	13.8	14.3	16.7	16.7
S&P EPS	45.9	70.00	68.60	70.32	72.07
S&P Index	1140.0	966	980	1172	1201
SCENARIO 2					
BASE					
WTI Crude Spot	80.00	80.00	89.00	90.00	90.00
USD Inflation CPI	-0.5%	2.4%	1.8%	2.0%	2.2%
Fed Funds	0.25%	0.50%	1.50%	2.50%	2.50%
Treasuries yield curve					
1Y	0.48	0.75	2.00	2.50	2.75
2Y	1.13	1.40	2.25	2.75	3.00
5Y	2.69	2.70	2.75	3.25	3.75
10Y	3.95	3.75	4.00	4.25	4.50
30Y	4.83	4.75	5.00	5.25	5.50
US 10 yr real rate	1.7	1.8	2.0	2.0	2.0
Long run real earnings growth \$	0.0	1.0	1.0	1.5	1.5
ERP S&P	5.0	5.6	5.3	5.0	5.0
S&P Trailing PE	24.8	15.6	16.0	18.2	18.2
S&P EPS	45.90	80.00	84.47	87.43	90.67
S&P Index	1140	1250	1352	1590	1648
SCENARIO 3					
GROWTH					
WTI Crude Spot	80.00	100	111.25	112.5	112.5
USD CPI Inflation	-0.01	2.5%	3.8%	3.5%	3.5%
FED rate	0.00	2.00%	3.50%	3.50%	3.50%
Treasuries yield curve					
1Y	0.48	2.50	3.75	3.75	3.75
2Y	1.13	3.00	4.25	4.25	4.25
5Y	2.69	4.25	4.75	4.75	4.75
10Y	3.95	4.50	5.00	5.00	5.00
30Y	4.83	5.25	5.50	5.50	5.50
US 10 yr real rate	1.70	2.5	2.5	2.5	2.5
Long run real earnings growth \$	0.00	2.0	1.5	1.5	1.5
ERP S&P	5.00	5.5	5.0	5.0	5.0
S&P PE	24.84	16.7	16.7	16.7	16.7
S&P EPS	45.90	87	95	101	106
S&P Index	1140.00	1450	1583	1683	1768

US targets

SCENARIO 1 DELTA	2009	2010	2011	2012	2013
WTI Crude Spot	60.00	66.75	67.50	67.50	67.50
USD Inflation (Dec-Dec)	-0.5%	0.0%	-2.0%	1.5%	1.5%
FED rate	0.25%	0.25%	0.25%	0.25%	1.00%
Treasuries yield curve					
1Y	0.48	0.50	0.50	0.75	1.25
2Y	1.13	0.80	0.80	1.00	1.75
5Y	2.69	1.30	1.30	1.50	2.25
10Y	3.95	3.25	3.25	3.25	3.25
30Y	4.83	4.00	4.00	4.00	4.00
US 10 yr real rate	1.7	1.5	1.5	1.5	1.5
Long run real earnings growth S&P	0.0	0.0	0.0	1.0	1.0
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S&P EPS	45.9	70.00	68.60	70.32	72.07
S&P Index	1140.0	966	980	1172	1201
SCENARIO 2 BASE					
WTI Crude Spot	80.00	80.00	89.00	90.00	90.00
USD Inflation CPI	-0.5%	2.4%	1.8%	2.0%	2.2%
Fed Funds	0.25%	0.50%	1.50%	2.50%	2.50%
Treasuries yield curve					
1Y	0.48	0.75	2.00	2.50	2.75
2Y	1.13	1.40	2.25	2.75	3.00
5Y	2.69	2.70	3.25	3.25	3.75
10Y	3.95	3.75	4.00	4.25	4.50
30Y	4.83	4.75	5.00	5.25	5.50
US 10 yr real rate	1.7	1.8	2.0	2.0	2.0
Long run real earnings growth S	0.0	1.0	1.0	1.5	1.5
ERP S&P	5.0	5.6	5.3	5.0	5.0
S&P Trailing PE	24.8	15.6	16.0	18.2	18.2
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FED rate	0.00	2.00%	3.50%	3.50%	3.50%
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1Y	0.48	2.50	3.75	3.75	3.75
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Russia targets

	Poor	Base	Good
One year			
	BOP Shock	is	Continue as Tough CBR
1.00 Deflation	38.00		36.00 34.00
2.00 Base	35.75		32.50 31.20
3.00 Growth	34.32		31.20 29.64

	Tough		Eur/\$
One year			
	BOP Shock	Continue as is CBR	
Deflation	34.86	33.03	31.19 1.20
Base	31.50	28.63	27.49 1.30
Growth	29.08	26.44	25.12 1.40

Russia

Oil key driver for BOP/Ruble/Valuations

	2009	2010	2011	2012	2013
RU					
Foreign reserves (\$bn)	438.0	400.0	350.0	325.0	350.0
GDP growth yoy	-7.0%	2.0%	4.0%	4.0%	4.0%
CPI Inflation Dec y-o-y	8.80%	7.00%	7.00%	7.00%	7.00%
GDP (\$bn)	1,380.0	1,381.8	1,464.4	1,552.0	1,644.8
Market parameters					
Rub/\$	30.3	33.0	34.7	36.4	38.2
Forward curve (mid)	30.3	31	32.3	33.6	34.9
Sovereign CDS 5 yr (BP)	158	500	350	250	250
Russia long bond yield (%)	4.9	9	7.5	6.5	6.5
Equity risk premium	6.5	6	6	6	6
LT earnings growth	3.0	1.0	1.0	1.0	1.0
Earnings	52.0	170.0	190.0		
Price Earnings	28.0	7.1	8.0		
RTSIS	1444.0	1214.3	1520.0		
RUSI					
Foreign reserves (\$bn)	438.00	500.0	560.0	600.0	610.0
GDP growth yoy	-7%	4.5%	5.0%	5.0%	5.0%
CPI Inflation Dec y-o-y	9%	6.50%	6.00%	6.00%	6.00%
GDP (\$bn)	1380.0	1,625.2	1,808.8	2,013.2	2,240.7
Market parameters					
Rub/\$	30.3	28.6	28.6	28.6	28.6
Forward curve (mid)	30.3	31	32.3	33.6	34.9
Sovereign CDS 5 yr (BP)	158.0	110	85	85	85
Russia long bond yield (%)	6.4	5.9	5.9	6.1	6.4
Equity risk premium	6.5	6.5	6.0	6.0	6.0
LT nominal earnings growth	3.0	3.3	3.0	3.0	3.0
Earnings	52.0	175.0	196.0		
Price Earnings	28.0	11.0	11.3	11.0	10.7
RTSIS	1444.0	1923.1	2214.7		
GROWTH					
Foreign reserves (\$bn)	438.0	525.0	600.0	640.0	660.0
GDP growth yoy	-7%	7.0%	9.0%	7.0%	6.0%
CPI Inflation Dec y-o-y	9%	7.50%	7.00%	6.00%	5.00%
GDP (\$bn)	1,380.0	1,819.0	2,243.8	2,544.9	2,832.5
Market parameters					
Rub/\$	30.3	26.4	25.0	25.0	25.0
Forward curve (mid)	30.3	31	32.3	33.6	34.9
Sovereign CDS 5 yr (BP)	158.0	90	75	75	75
Russia long bond yield (%)	6.4	6.2	6.3	6.3	6.3
Equity risk premium	6.5	6.5	6.5	6.5	6.5
LT nominal earnings growth	4.0	3.5	4.0	4.0	4.0
Earnings	130.0	201.3	211.3		
Price Earnings	11.2	10.9	11.4	11.4	11.4
RTSIS	1444	2199.454	2415		

Ukraine

More global growth means the base improves

W	2009	2010	2011	2012	2013
Foreign reserves (\$bn)	27.0	18.0	11.0	12.0	14.0
GDP growth yoy	-12%	4%	-10%	4%	6%
CPI Inflation Dec y-o-y	12.30%	12.00%	16.00%	16.00%	16.00%
GDP (\$bn)	111.0	116.4	104.7	113.8	126.1
Market parameters	2009	2010	2011	2012	2013
UAH/\$	8.1	9.0	10.4	11.6	12.9
Forward curve (mid)	8.1	10			
Sovereign CDS 5 yr	924	1100	1100	1000	1000
Ukraine 5 yr bonds	11.93	13.7	13.75	13.25	13.75
Basic	2009	2010	2011	2012	2013
Foreign reserves (\$bn)	27.0	26.0	28.0	30.0	32.0
GDP growth yoy	-12%	6%	7%	6%	6%
CPI Inflation Dec y-o-y	12.30%	10.00%	9.00%	9.00%	8.00%
GDP (\$bn)	111.0	137.9	174.7	192.2	211.6
Market parameters	2009	2010	2011	2012	2013
UAH/\$	8.1	7.6	7.0	7.4	7.6
Forward curve (mid)	9.3	10			
Sovereign CDS 5 yr	1000	600	550	500	500
Ukraine 5 yr bonds	12.69	8.7	8.25	8.25	8.75
Growth	2009	2010	2011	2012	2013
Foreign reserves (\$bn)	27.0	29.0	34.0	35.0	35.0
GDP growth yoy	-12%	9%	9%	7%	6%
CPI Inflation Dec y-o-y	12.30%	12.00%	8.00%	8.00%	7.00%
GDP (\$bn)	111.0	146.3	190.0	217.4	246.6
Market parameters	2009	2010	2011	2012	2013
UAH/\$	8.1	7.5	6.8	6.9	6.9
Forward curve (mid)	8.1	10			
Sovereign CDS 5 yr	1000	550	450	400	400
Ukraine 5 yr bonds	12.69	8.2	7.25	7.25	7.75