

## UBS Investment Research

# Global Economic Scorecard

### A weaker pulse (again)

#### ■ Softer leading indicators

This month's *Global Economic Scorecard* provides further evidence that the pulse of the world economy is fading. Many of our aggregate activity measures lost ground on a further retreat in leading indicators, including purchasing managers' surveys of manufacturing and services.

#### ■ Still high US recession probability

Our regional and global indicators are now at levels that have previously been identified with 'growth recessions' (a protracted period of below-trend growth). And in some cases, most notably in the US, various indicators are at levels previously associated with recessions. The latest reading from our US recession probability model, for example, is 78%, some 15% higher than last month.

#### ■ Higher odds of a global recession

The recent weakness of global equity markets, the widening of US credit spreads and the latest decline in global government bond yields suggests that investors are paring back expectations for global growth and profitability. Our model suggests that investors are collectively discounting a 30% probability of a global recession, up nearly 25% from last month.

#### ■ Downside risks to consensus forecasts

On our estimates, global GDP growth will track in a range of 3.0-3.5% over the next two years, below our estimate of trend growth of 3.8%, and a far cry from the above-trend readings achieved from 2003-2007. Yet we see considerable risk that global growth will fall short of even this more subdued range in 2009. Consensus forecasts for 2009 appear at risk of disappointment.

**9 July 2008**[www.ubs.com/economics](http://www.ubs.com/economics)**Andrew Cates**

Economist  
andrew.cates@ubs.com  
+44-20-7568 6892

**Larry Hatheway**

Economist  
larry.hatheway@ubs.com  
+44-20-7568 4053

**Sophie Constable**

Associate Analyst  
sophie.constable@ubs.com  
+44 20 7568 3105

<b>Contents</b>	<b>page</b>
<b>Global Growth Dial</b>	<b>3</b>
<b>Overview</b>	<b>4</b>
<b>Global growth</b>	<b>10</b>
<b>Global production and trade</b>	<b>12</b>
<b>Inflation</b>	<b>14</b>
<b>Profits</b>	<b>16</b>
<b>US</b>	<b>18</b>
<b>Euro zone</b>	<b>20</b>
<b>Japan</b>	<b>22</b>
<b>UK</b>	<b>24</b>
<b>China</b>	<b>26</b>
<b>Emerging economies</b>	<b>28</b>
<b>Global consumer spending</b>	<b>30</b>
<b>Global capital investment</b>	<b>32</b>
<b>The US dollar</b>	<b>34</b>
<b>Government bond markets</b>	<b>36</b>
<b>Equities</b>	<b>38</b>
<b>Oil and commodities</b>	<b>40</b>
<b>Markets versus Economics</b>	<b>42</b>
<b>Asset allocation overview</b>	<b>44</b>
<b>Asset class tilts by region</b>	<b>45</b>
<b>Economic forecasts</b>	<b>46</b>
<b>Global Economic Analysts</b>	<b>48</b>

**Andrew Cates**

Economist  
andrew.cates@ubs.com  
+44-20-7568 6892

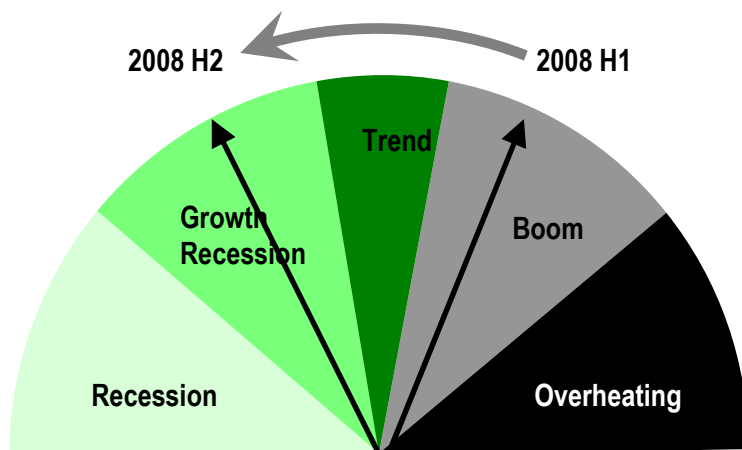
**Larry Hatheway**

Economist  
larry.hatheway@ubs.com  
+44-20-7568 4053

**Sophie Constable**

Associate Analyst  
sophie.constable@ubs.com  
+44 20 7568 3105

## Global Growth Dial



### Our core macro views: Three themes

- **No de-coupling, no rebalancing.** Global growth is unlikely to escape the downdraft from US recession. We believe weaker US consumption will compress import demand and hence world trade. A higher cost of capital, credit restraint, and soaring energy and food prices will also slow global growth below trend in 2008-2009. Expansionary US monetary and fiscal policy will replace US household dis-saving as the primary drivers of structural imbalances in the world economy.
- **Erosion of US dollar hegemony.** The US dollar's role as mainstay of global monetary arrangements we expect to fade as high-inflation emerging economies gravitate to alternative nominal anchors. Many emerging currencies, particularly in Asia, are likely to appreciate at a faster rate. But high inflation in the emerging complex will also test investor confidence in ways not seen in more than a decade.
- **End of a golden era.** The world economy is exiting an unprecedented half-decade of strong growth and robust profitability. We expect equity and corporate credit returns to be more modest and (eventually) will be driven more by falling risk premiums than by earnings growth. Distressed debt and undervalued assets are likely to become a key locus of returns.

### Key indicators/events to watch

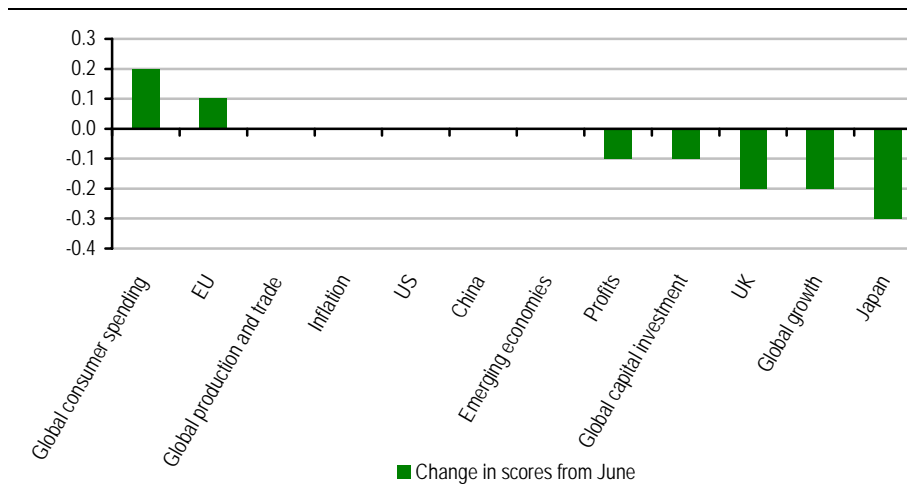
- **Global inflation data:** Heightened inflation concerns have moved CPI releases into sharp focus. Key releases in the month ahead include June's US CPI (16 July) and Eurozone CPI data (16 July). China's June CPI data (18 July) also bears watching.
- **Confidence indicators:** Business and consumer confidence indices will remain crucial for global macroeconomic outcomes in the period ahead.
- **US labour market data:** The US labour market is expected to remain pivotal in determining how US consumers cope with the balance sheet and income stress posed by weaker house prices and soaring energy costs. The next US non-farm payroll report will be an important data point (1 August).

# Overview

This month's *Global Economic Scorecard* provides further evidence that the pulse of the world economy is fading. Many of our activity scores lost ground. The greatest loss of momentum was recorded for Japan, a function of widespread softening across various high-profile indicators. Our score for global growth also lost ground this month on a further retreat in several global leading indicators, including purchasing managers surveys of manufacturing and services.

On the positive side of the ledger, our scores for global consumption eked out a modest gain this month. This can mostly be traced to the impact on US personal disposable income of the income tax rebates. Insofar as the boost from these rebates is temporary, however, our score for global consumption should drop back again in the months ahead.

## Change in scores from June



Source: UBS

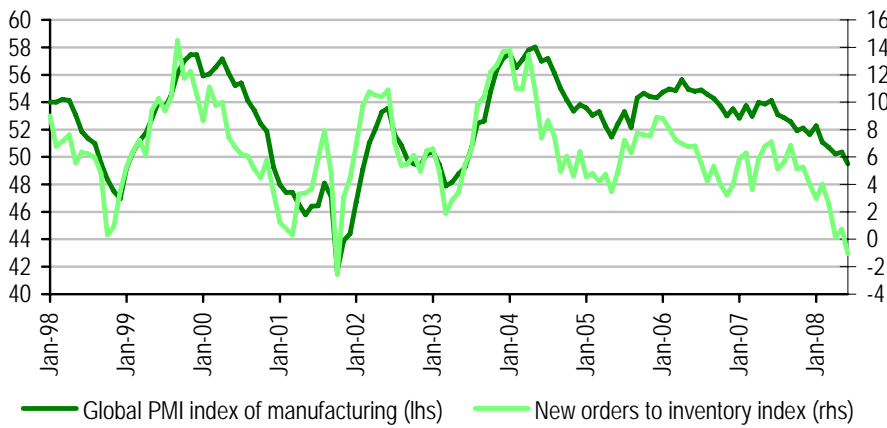
Our favourite leading indicator of global activity continues to signal downside growth risks. The global purchasing managers' index of manufacturing dipped below 50 in June, signalling that global manufacturing output is now contracting. Significantly, the ratio of new orders to inventory dipped again, pointing to more downside for global manufacturing activity in the months ahead (see chart below).

**Pulse of world economy still fading**

**US tax rebates have boosted the global consumption score, but this should be temporary**

**Leading indicators point to downside risks**

**Evidence of excess inventory in global manufacturing is more acute**

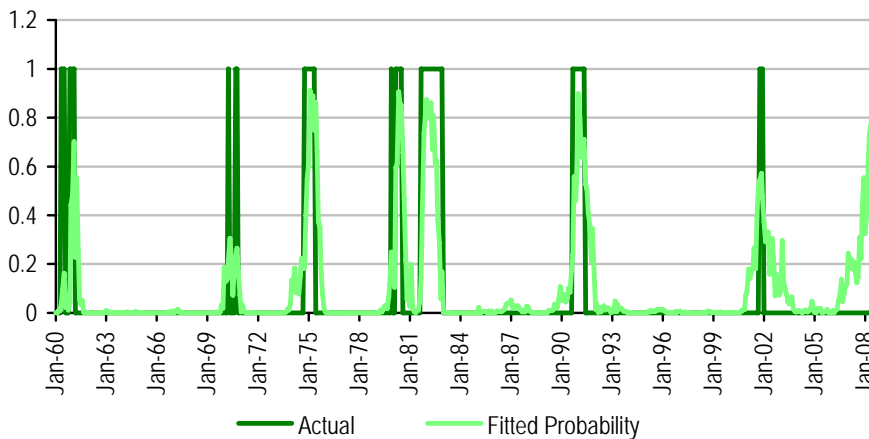


Source: UBS/Haver

Many of our regional and global indicators are now at levels previously associated with ‘growth recessions’ (i.e., periods of protracted below-trend growth). And in some cases, most notably in the US, many high-frequency indicators are at levels consistent with recession. The latest reading from our US recession probability model, for example, is 78%, some 15% higher than last month. The elevated reading reflects declining US employment growth, falling house prices, and depressed housing starts (three of the key factors in the model).

**The latest reading from our US recession probability model, for example, is 78%, some 15% higher than last month**

**The latest reading from our US recession probability model is 78%**



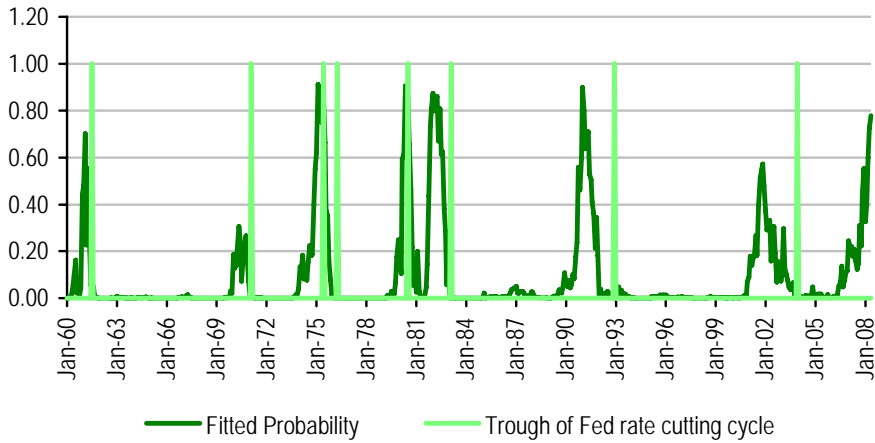
Source: UBS. The model is a function of four factors: US housing starts, house prices, employment growth and durable goods orders.

Importantly, the trough of a Fed rate cutting cycle has *never* occurred while our US recession probability model signalled increasing odds of recession (see chart below). Rather, the Fed has typically continued easing monetary policy during recessions. Moreover, it has not typically tightened monetary policy until long after an economic upturn has been identified. Notwithstanding the tax rebate-related boost to US consumption growth now unfolding, our US team expects a US recession to remain in place through the end of this year, consistent with the reading from our recession probability model. That, in turn, accords with our

**We still forecast 50bps of Fed easing by year-end**

view that the Fed will deliver 50bps of additional easing in Q4, in stark contrast to the tightening now discounted in the US forward curve.

**The trough of Fed rate cutting cycles has occurred after our recession probability model has turned decisively lower (a recession has formally ended)**

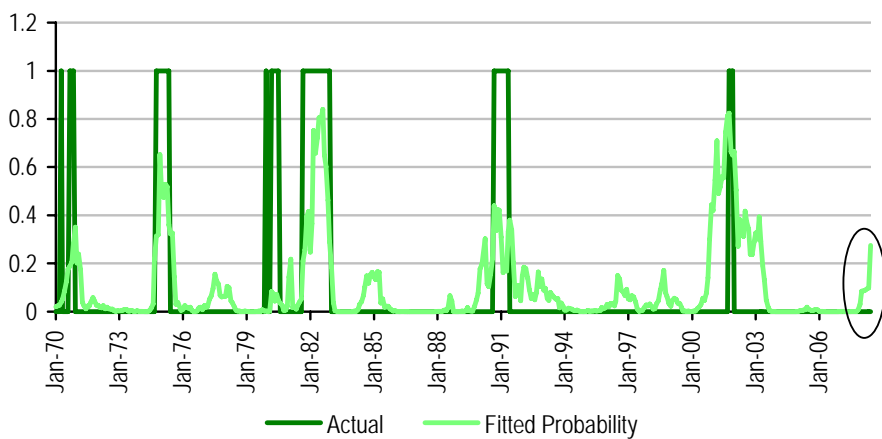


Source: UBS

On our calculations recent market pricing suggests investors have been revising down expectations for world economic growth. The weakness of global equity markets, the widening of US credit spreads, and the retreat in global government bond yields suggests that investors have pared back expectations for global growth and profitability. Specifically, our model suggests that global asset prices now discount a 30% probability of a global recession, some 20-25% higher than last month (see chart below).

**Our model suggests that markets are discounting a 30% probability on a global recession outcome in the period ahead**

**Estimated global recession probability from asset prices**



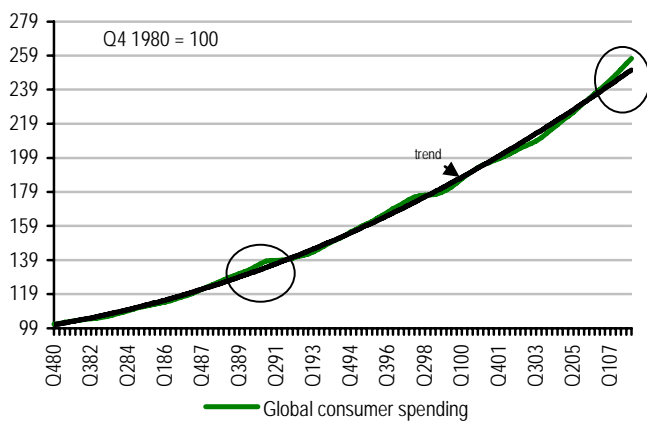
Source: UBS. Based on probit-based regression analysis relating a global recession outcome (a period when the Global PMI index of manufacturing is below 45) to financial asset prices. These include the 12-month change in BAA US credit spreads, the annual change in the global MSCI index of equity prices, the annual change in a composite metal price index and the shape of the US yield curve.

**Risks to consumption from downside in housing**

As we have documented in our recent research, we are also extremely concerned about the prospects for the world economy.<sup>1</sup> This is largely due to the deteriorating outlook for household consumption, particularly in developed economies. On our calculations global consumer spending volume has done most of the heavy lifting for the world economy over the past few years (see first two charts below). In developed economies consumption received considerable support this decade from the balance sheet side of household finances. The story is well known. Rising real house prices allowed households easy access to mortgage debt, driving down saving ratios, which in turn stoked consumer confidence and stronger household spending growth. Exuberance in the formal and ‘shadow’ banking sectors—via securitisation of financial products—facilitated access to mortgage credit over this period, underpinning consumer leveraging trends.

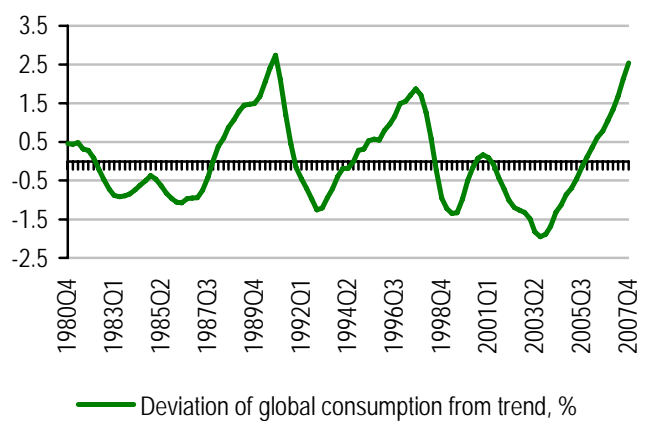
As has become all too clear since last summer, this situation has begun to play out in reverse, most notably in the US and the UK. Tighter lending standards, combined with falling real house prices, are now likely to produce a prolonged period of household de-leveraging that, in turn, should drag developed economies’ household consumption growth onto a much weaker trajectory over the remainder of this decade, if not longer.

**Global growth driven by above-trend growth in consumption**



Source: UBS calculations/National sources

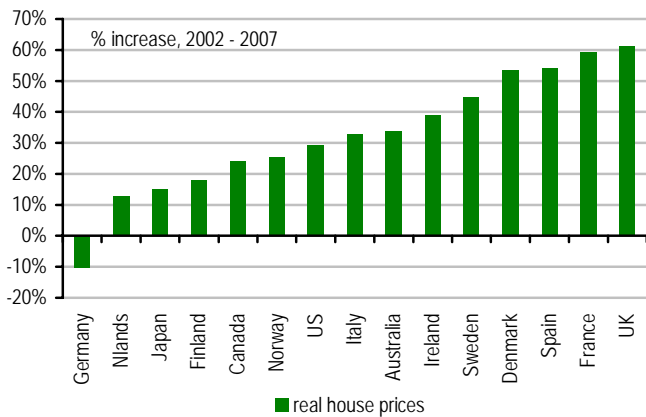
**Global consumption volume is well above trend**



Source: UBS calculations/National sources

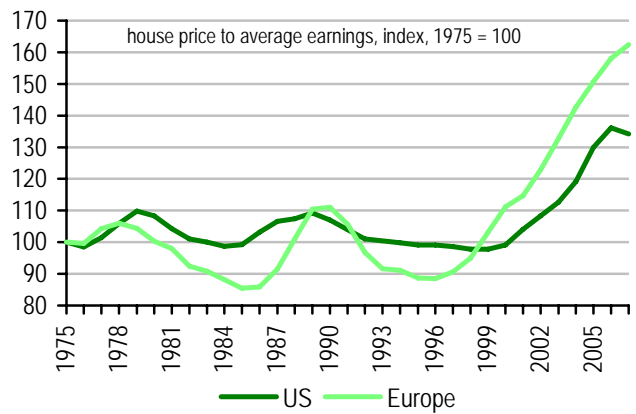
<sup>1</sup> See 'Three Themes #3: End of a Golden Era' Global Economic Perspectives, 20 June 2008,

### Real house prices gains, 2002-2007



Source: UBS calculations/National sources

### Over-valued housing markets

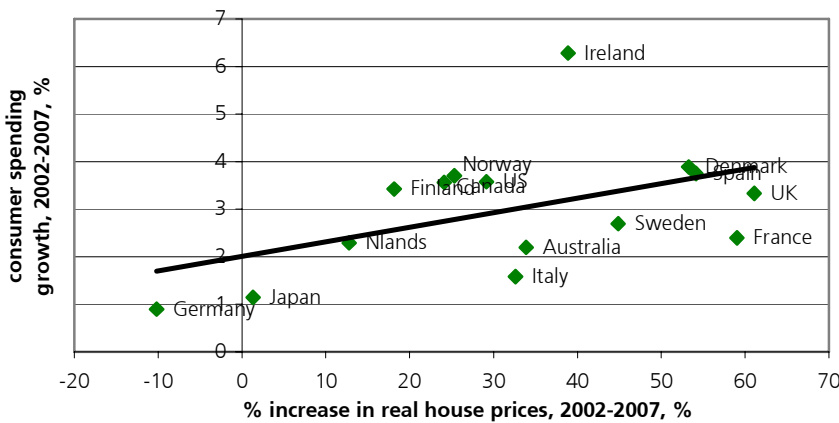


Source: UBS calculations/National sources. European data is an un-weighted average of indices for the UK, France, Spain, the Netherlands, Ireland, Italy, and Finland (and Germany after 1991).

Those economies which appear most at risk to household de-leveraging are those that have experienced the most exuberance in their housing markets and consumption behaviour. Well-known candidates include the US, the UK, Spain and Ireland. We would add to the list France, many of the Nordic economies, Canada, Australia and Italy given the correlation between gains in real house prices and consumer spending growth in these countries over the past half decade (see chart below).

### A tight correlation between house prices and consumption over the past 5 years

### Real house prices and consumer spending have been tightly correlated



Source: UBS/National sources

Another challenge for the world economy is inflation, which is now particularly acute in emerging economies where the high weight of food and fuel in consumer baskets has amplified the inflationary impact of soaring commodity prices. High inflation poses two problems for growth. First, it compresses real household incomes and profits. Second, rising inflation is likely to engender tighter monetary policies in many emerging economies this year and particularly in those countries where capacity bottlenecks and tight labour markets are threatening to unleash more demand-led (as opposed to just cost-push) price pressures (e.g., in Russia, Brazil or India).

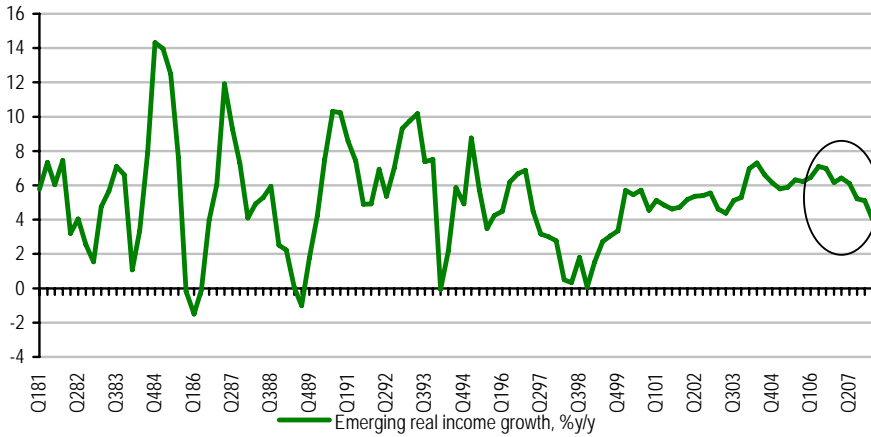
### Inflation challenges for the developing economy bloc



As a result, domestic demand-led growth in much of the developing world is now at greater risk and unlikely to offset the consumption-led downturn that we envisage in much of the developed world. Indeed, slower real income gains seem likely to render an autonomous consumption-led downturn in much of the developing world that could exacerbate the downside risks to global growth from elsewhere.

**Domestic demand growth at risk in developing world**

**Developing economy real household income growth**

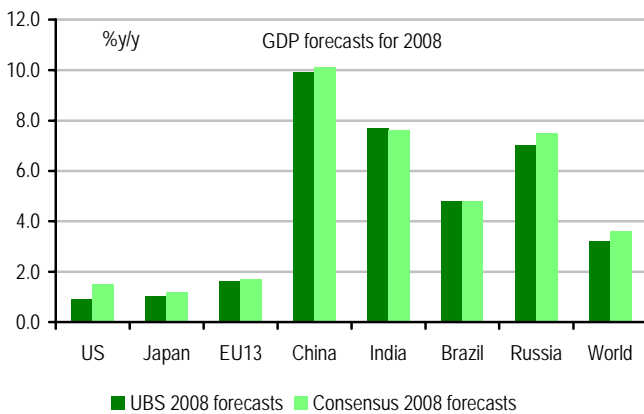


Source: UBS calculations.

The bottom line is that global growth appears destined to slow over the next year and thereafter could remain sluggish. On our estimates, global GDP growth will probably lie in a range of 3.0-3.5% over the next two years, below our estimate of trend global GDP growth of 3.8%. We see considerable risk, moreover, that global growth next year will fall short of even this more subdued range for the reasons we have outlined above. Current consensus forecasts for 2008 and 2009 certainly seem at risk to disappointment (see charts below).

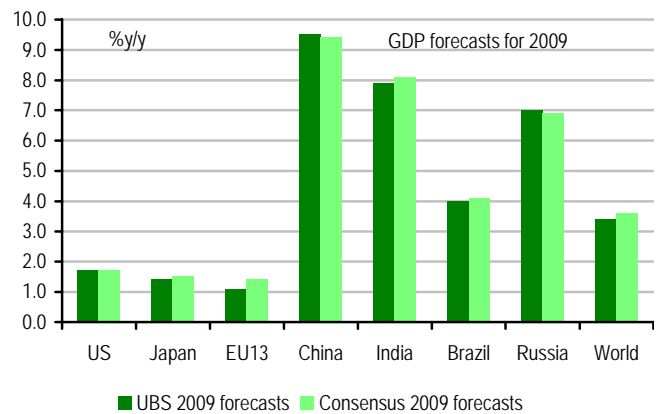
**Consensus forecasts for global growth look too high**

**UBS and Consensus GDP growth forecasts for 2008:**



Source: UBS/Consensus Economics

**UBS and Consensus GDP growth forecasts for 2009:**



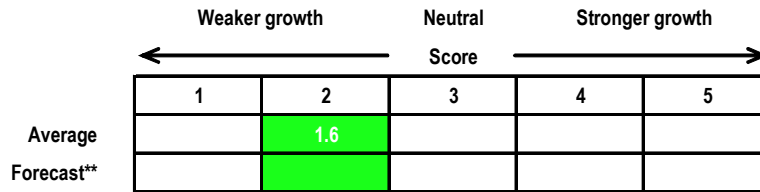
Source: UBS/Consensus Economics

# Global growth

## Economic activity

	Latest	3-month Av.	Trend	Std. Dev.	Score
Global PMI manuf. index	49.5	50.0	52.4	1.9	1.0
Global PMI services index	49.4	50.9	56.2	2.6	1.0
G3 cap. goods orders %y/y	1.9	3.0	7.8	7.8	2.0
China physical activity ind.	11.4	11.3	12.7	3.5	3.0
Global Consumer Conf ind.	-1.7	-1.4	0.0	0.8	1.0

Most of our global activity indicators are hovering close to levels that have previously been associated with recession

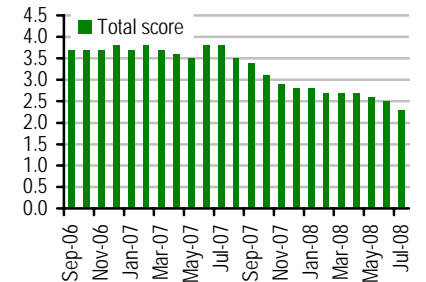
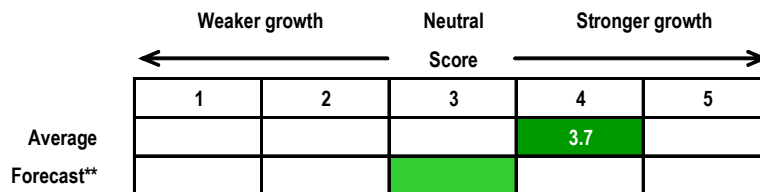


## Financial conditions\*

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
UBS US fin. conditions ind.	-1.3	-0.6	0.0	0.3	1.0
UBS EU fin. conditions ind.	0.6	0.7	0.0	0.4	5.0
UBS JPY fin. cond. ind.	0.7	0.6	0.0	0.6	5.0

US financial conditions have tightened

\* An index of credit market spreads, equity prices and bank lending growth

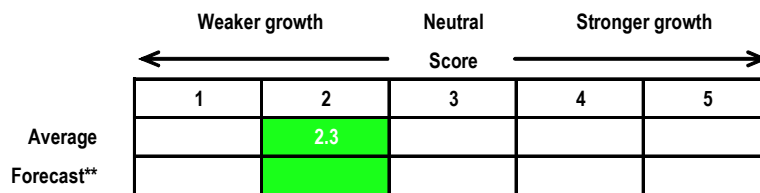


## Monetary and risk conditions

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
G7 M1 growth (%y/y)	1.9	2.5	5.4	2.2	1.0
G7 M3 growth(%y/y)	7.5	7.5	5.5	1.0	5.0
EMBI spread (bps)	297.8	271.3	241.4	46.2	2.0
UBS risk indicator*	-1.0	-0.4	0.0	0.0	1.0

Monetary and market risk indicators are mostly consistent with weaker levels of global growth in the period ahead

\* The Risk Indicator is an equally weighted normalised composite of 3 components: Equity Market Positioning, Equity Option Vol and Credit & FX Conditions



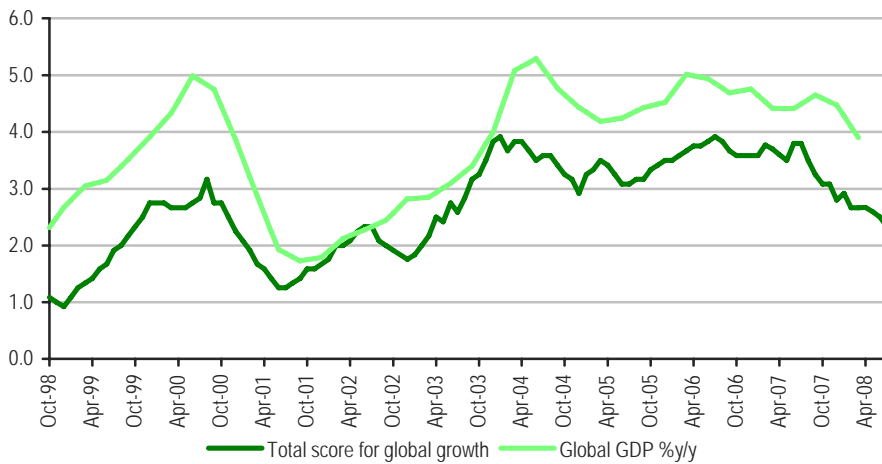
Overall score: 2.3●

\*\* Expected average score in 12 months time.

• The overall score represents a simple average of the scores for each indicator

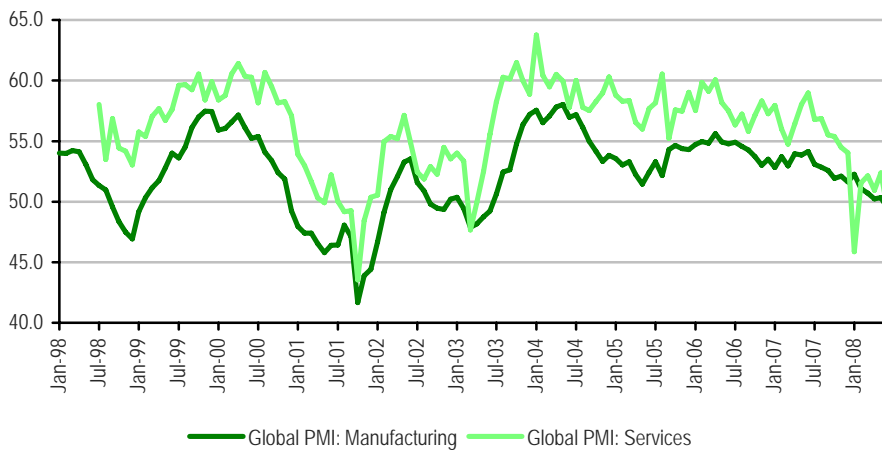
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

**Global growth score versus global GDP growth**



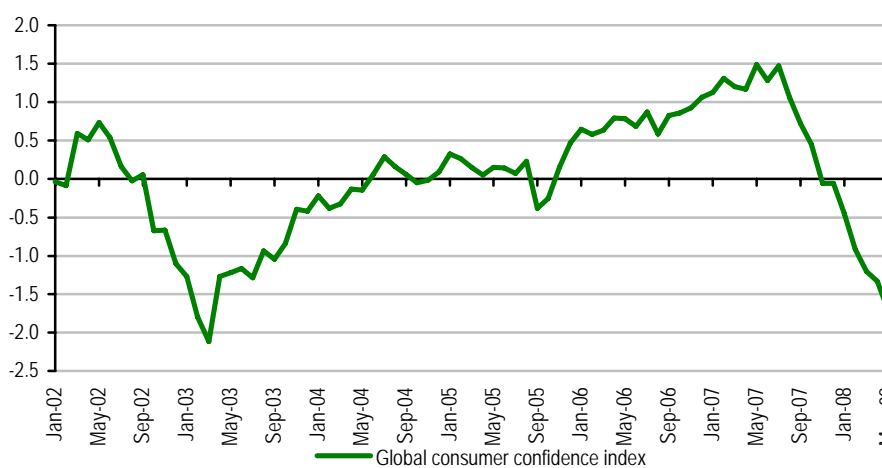
Our score for global growth weakened again this month and points to a sub-trend phase of global activity

**Global PMI surveys of manufacturing and services**



Our favourite leading indicators—the PMI surveys of manufacturing and services—have weakened over the past few months

**Global consumer confidence**



Consumer confidence gauges have weakened significantly in recent months

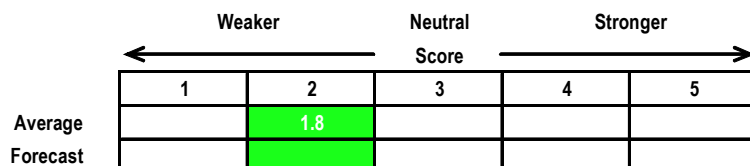
Source for this page: UBS, Haver

# Global production and trade

## Production

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Global Industrial Prod., %y/y	4.2	4.3	4.0	0.8	3.0
Global PMI manuf. index	49.5	50.0	52.4	1.9	1.0
G3 manuf. new orders, %y/y	-1.6	-0.3	5.7	6.7	2.0
G7 leading ind., 6 mo. %chg	-3.1	-3.1	1.7	3.0	1.0

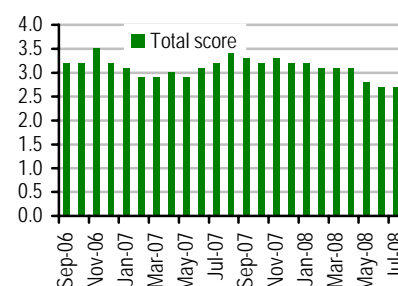
Manufacturing production indicators have been slowing



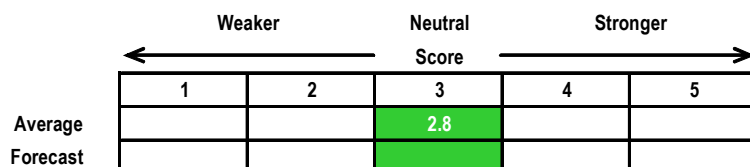
## Inventory\*

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Global inventory/orders in.	1.1	0.1	-6.7	2.8	1.0
Asia inventory/ship. index	95.4	95.6	90.0	7.1	2.0
Stocks/G7 GDP %y/y	-0.3	-0.2	0.0	0.3	4.0
US inventory to sales ratio	1.3	1.3	1.3	0.1	4.0
EU finished stocks balance	9.7	8.7	9.0	3.6	3.0

Evidence of excess inventory at the global level has become much more pronounced



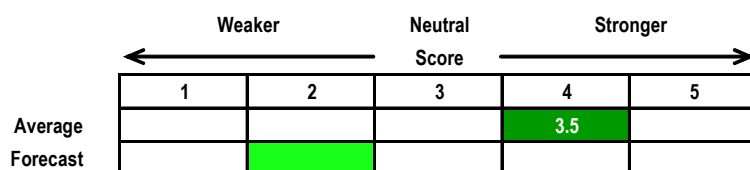
\* Higher inventory balances are negative for the growth outlook and are thus assigned lower relative scores.



## World trade

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
World trade imports %y/y	6.2	6.2	7.5	3.9	3.0
World trade exports %y/y	7.6	7.5	7.5	3.9	3.0
Global PMI exp. orders ind.	52.0	51.9	52.4	3.3	3.0
US ISM export orders index	58.5	58.5	53.3	2.4	5.0

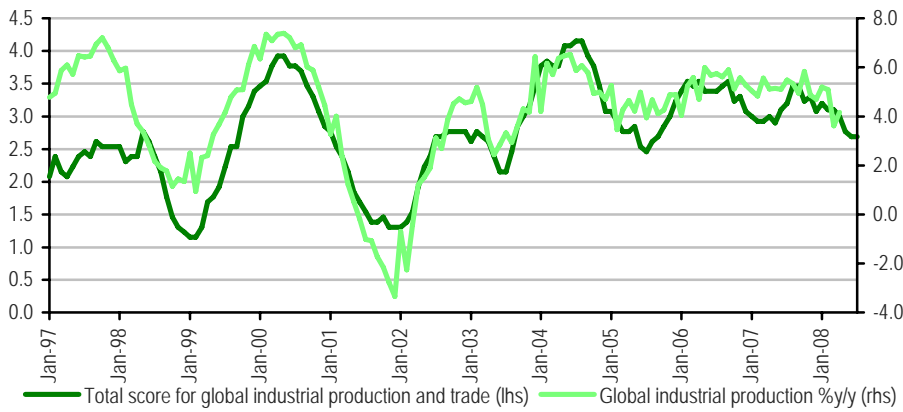
World trade indicators have started decelerating



Overall score: 2.7

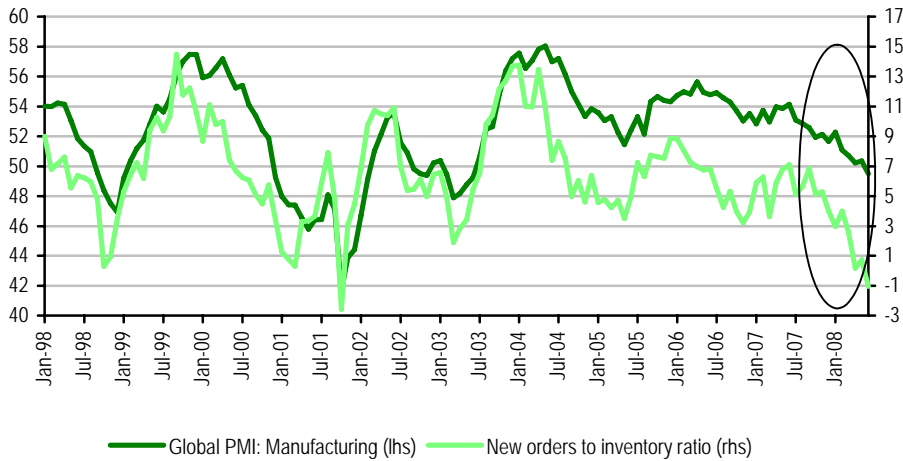
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

**Global industrial production growth**



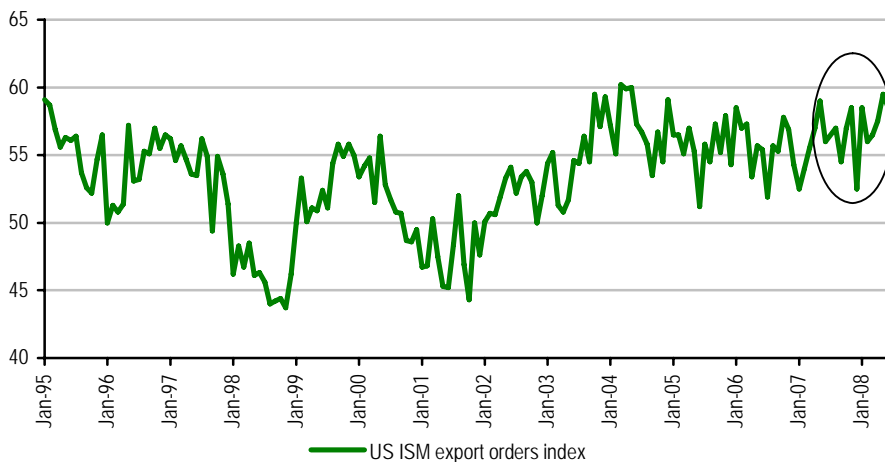
The data flow for industrial activity appears consistent with a slowdown in growth

**Global PMI: inventory to new orders ratio**



More acute global inventory excesses

**US ISM export orders**



But still strong US export orders

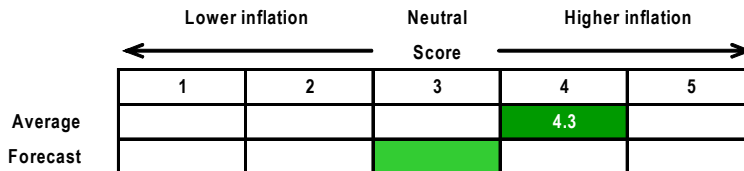
Source: UBS, Haver

# Inflation

## Global

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Oil prices (\$/bbl)	141.4	126.3	91.9	23.4	5.0
CRB index	545.9	544.3	462.8	78.6	5.0
Global output gap, % GDP	-0.6	-0.6	-1.1	0.6	4.0
G7 unit wage costs, %/y	1.7	1.7	1.9	0.8	3.0

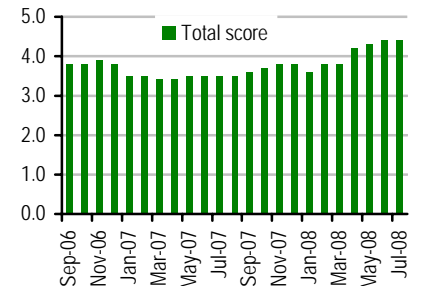
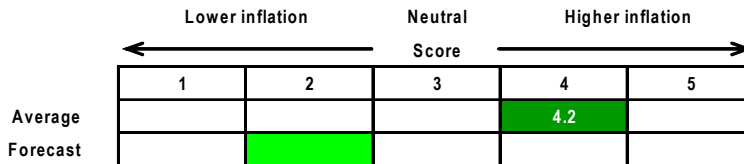
Continuing high commodity prices still pose big upside risks to headline inflation outcomes



## National

Indicators	Latest	3-month Av.	Target/Trend	Std. Dev.	Score
US core CPI, %/y	2.3	2.3	2.3	0.4	3.0
China CPI, %/y	7.8	8.2	3.0	2.2	5.0
EU core CPI, %/y	1.7	1.8	1.4	0.2	5.0
Japan core CPI, %/y	1.5	1.2	0.5	0.4	5.0
US inflation lead. ind. %/y	3.2	3.2	3.0	1.5	3.0

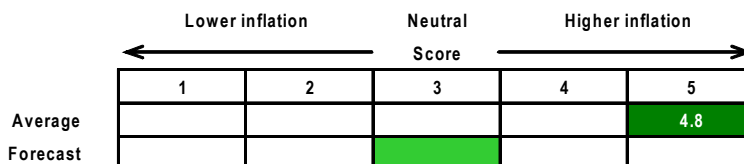
Inflation in parts of Asia and Europe is uncomfortably high



## Inflation expectations

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US Michigan 5-10yr exp.	3.4	3.3	2.9	0.1	5.0
EU inflat. expectations ind.	30.6	28.7	17.7	7.7	5.0
US inflation breakeven 5 yr	2.4	2.5	2.2	0.3	4.0
EU inflation breakeven 10 yr	2.7	2.6	2.2	0.1	5.0

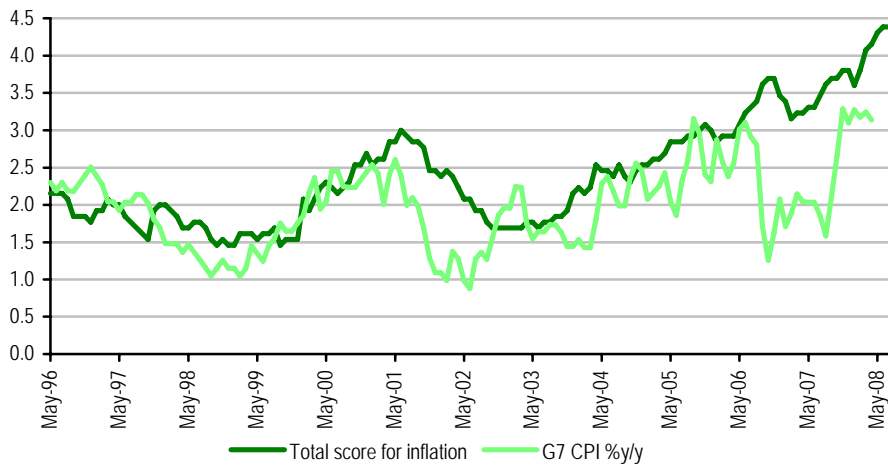
Market-based measures of inflation expectations also remain high largely due to soaring energy prices



Overall score: 4.4

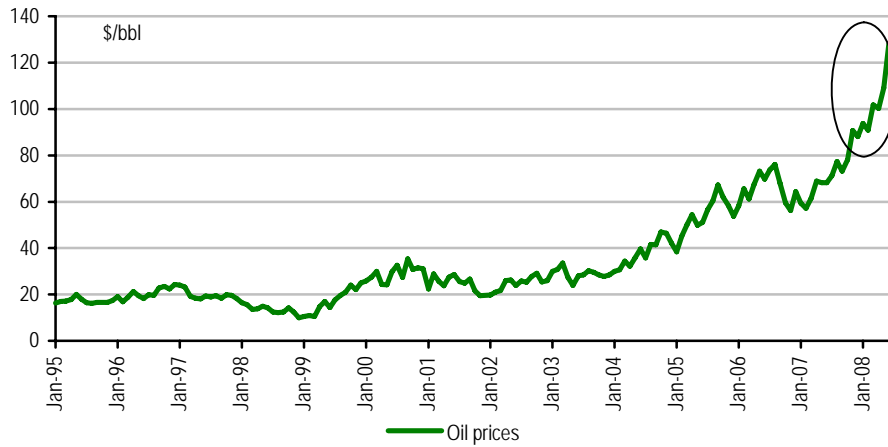
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

**UBS inflation score versus G7 CPI inflation**



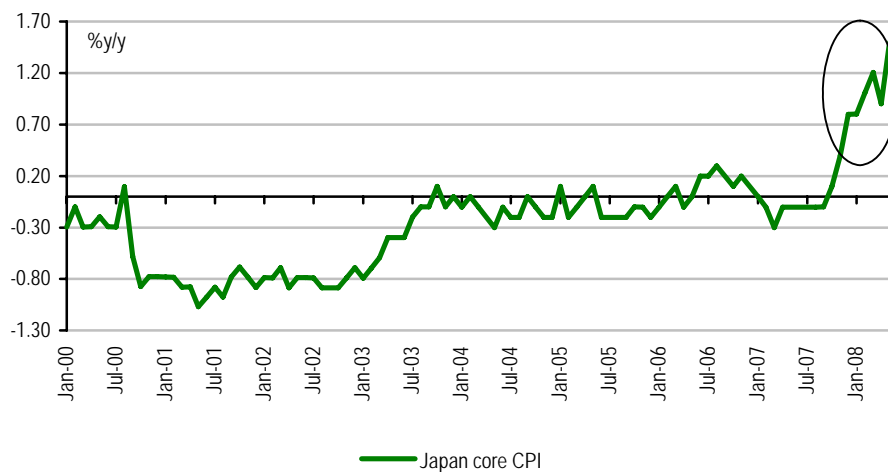
Our score for global inflation remained stable this month

**Oil prices**



Oil prices remain a chief source of (headline) inflation risk

**Japan core CPI**



Even Japan's core CPI has risen sharply in recent months

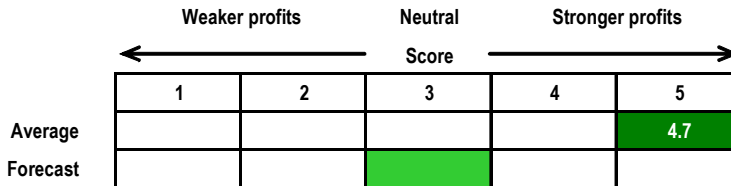
Source: UBS/OEF/Haver/Bloomberg

# Profits

## Profit share, % of GDP

Indicator	Figure	Average	Trend	Dev.	Score
US corporate profits	11.0	11.1	9.7	1.3	5.0
Japan corporate profits	9.5	10.1	7.8	2.2	4.0
EU operating surplus	40.5	40.4	39.5	0.5	5.0

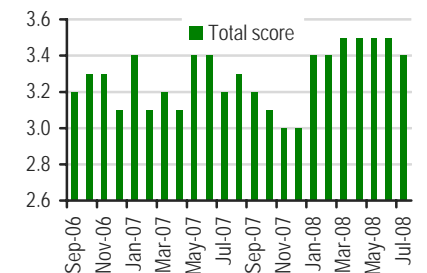
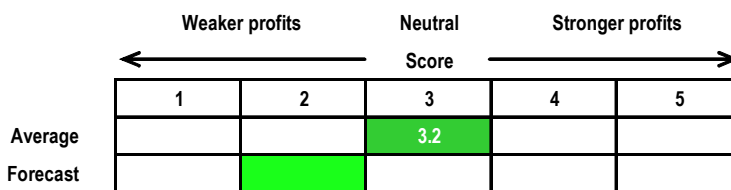
Profit shares of GDP have edged off their highs



## Growth and productivity

Indicator	Figure	Average	Trend	Dev.	Score
G7 nominal GDP %y/y	3.8	3.9	3.8	1.0	3.0
G7 productivity, %y/y	1.8	1.7	1.5	0.5	3.0
US productivity, %y/y	3.4	3.2	2.5	1.0	4.0
EU productivity, %y/y	0.9	0.9	1.0	0.6	3.0
Japan productivity, %y/y	1.2	1.2	1.8	1.3	3.0

Productivity growth in the US and Japan have picked up slightly

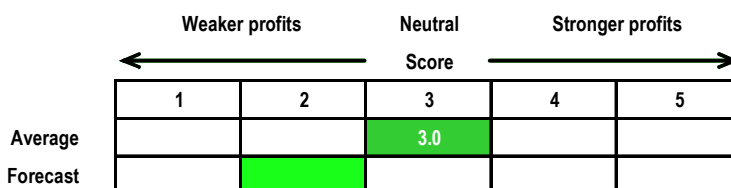


## Costs, capacity and policy\*

Indicator	Figure	Average	Trend	Dev.	Score
G7 unit wage costs, %y/y	1.7	1.7	1.9	0.8	3.0
G7 non-unit wage costs %y/y	1.3	1.8	4.3	3.3	4.0
Global labour capacity, %	-0.1	-0.1	0.4	0.3	1.0
G7 Policy stance	-0.3	-0.3	-0.1	0.7	3.0
G7 PPI, %y/y	6.0	5.8	1.3	1.9	5.0
US capacity utilisation, %	79.4	79.8	81.4	3.1	2.0

We believe capacity pressures in global labour markets pose the greatest threat to the outlook for corporate profitability. These pressures should fade, however, as global growth decelerates

\*Scoring system adjusted to reflect the impact on profitability, i.e. lower unit costs imply higher profitability



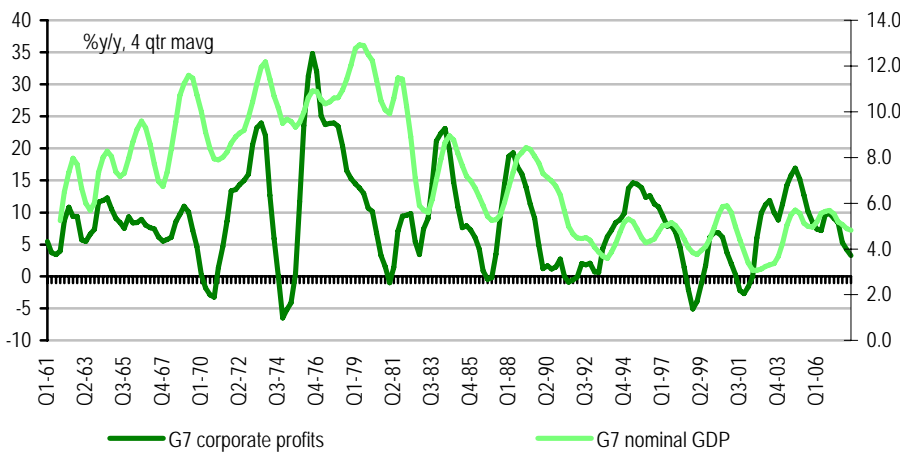
Overall score: 3.4

Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.



**G7 corporate profits and nominal GDP**

**G7 corporate profits are slowing in tune with nominal GDP growth**



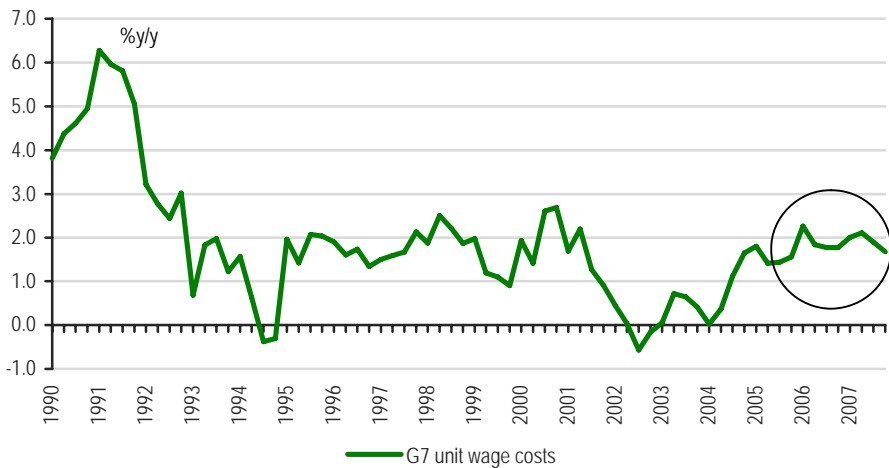
**US productivity**

**US productivity growth has picked up**



**G7 unit wage costs**

**G7 unit wage cost inflation has been slowing partly thanks to stronger US productivity growth along with subdued wage pressures**



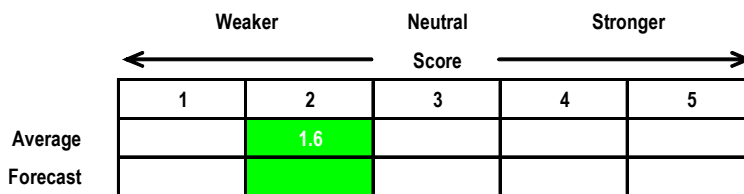
Source: UBS, OEF, Haver

# US

## Domestic activity

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
ISM Manufacturing index	50.2	49.5	53.0	3.6	2.0
ISM non-manufacturing in.	48.2	50.6	55.2	3.4	1.0
Non-farm payrolls, %y/y	0.0	0.1	0.7	0.7	2.0
Retail Sales, %m/m	1.0	0.6	0.6	0.9	3.0
Manufacturing output %m/m	0.0	-0.2	0.3	0.5	2.0
Housing starts, '000s	975	990	1728	332	1.0
Existing home sales, '000s	4990	4940	5972	724	1.0
Consumer confidence ind.	50.4	57.1	111.2	11.8	1.0

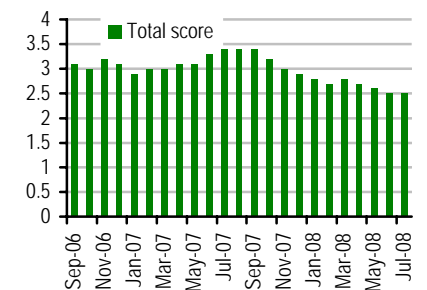
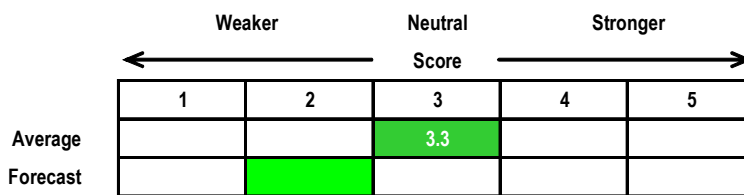
Most of our US activity indicators are still close to if not already at levels that have previously been identified with US recessions



## Inflation

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Effective exch. rate, index	96.1	95.8	103.4	7.9	4.0
Producer prices, %y/y	7.2	6.8	2.3	1.8	5.0
Av. hourly earnings, %y/y	3.4	3.5	3.6	0.8	3.0
Employment cost ind. %y/y	3.3	3.3	3.6	0.4	2.0
Core CPI, %y/y	2.3	2.3	2.3	0.4	3.0
Core PCE, %y/y	2.1	2.1	2.0	0.3	3.0

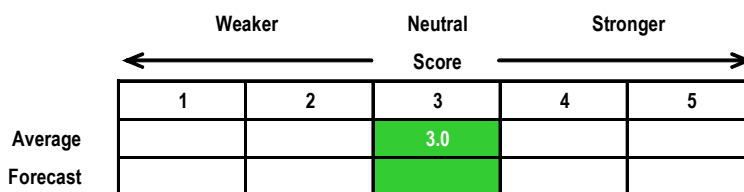
Core inflation and wage inflation indicators remain mostly well-behaved



## International

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Global PMI manuf. index	49.5	50.0	52.4	1.9	1.0
US ISM export orders index	58.5	58.5	53.3	2.4	5.0
Global Industrial Prod, %y/y	4.2	4.3	4.0	0.8	3.0

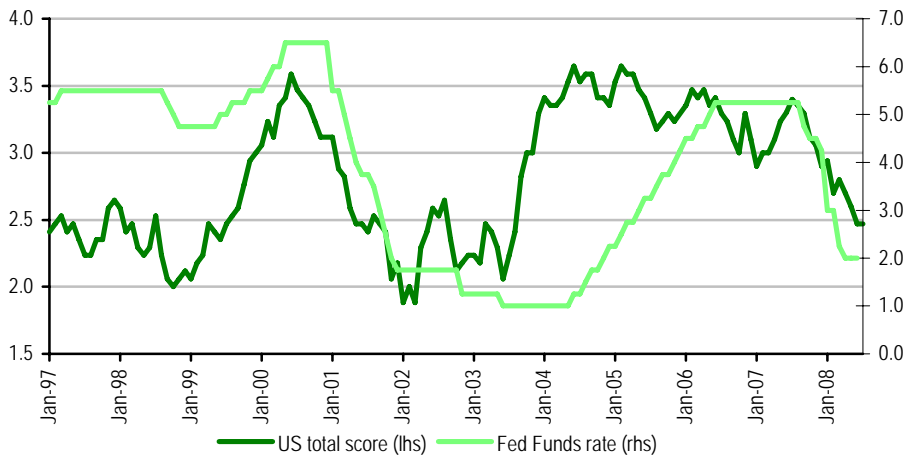
Relative to our scores for US domestic activity, our global scores are still quite firm



Overall score: 2.5

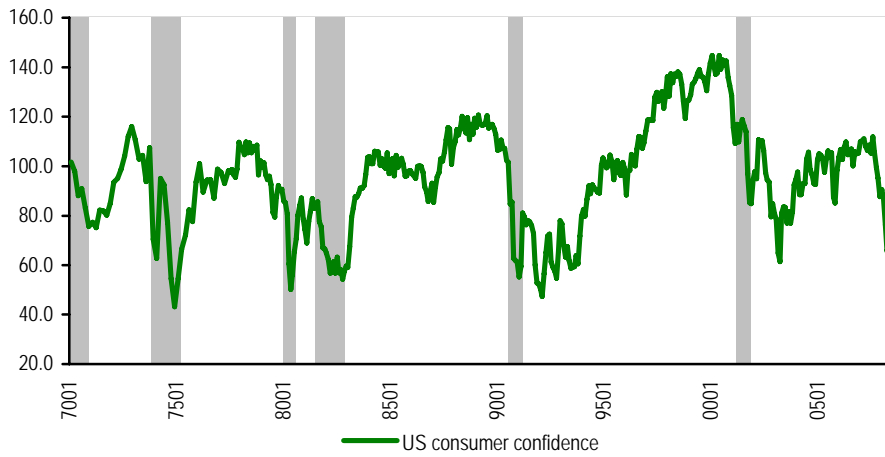
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

**US score versus Fed funds rate**



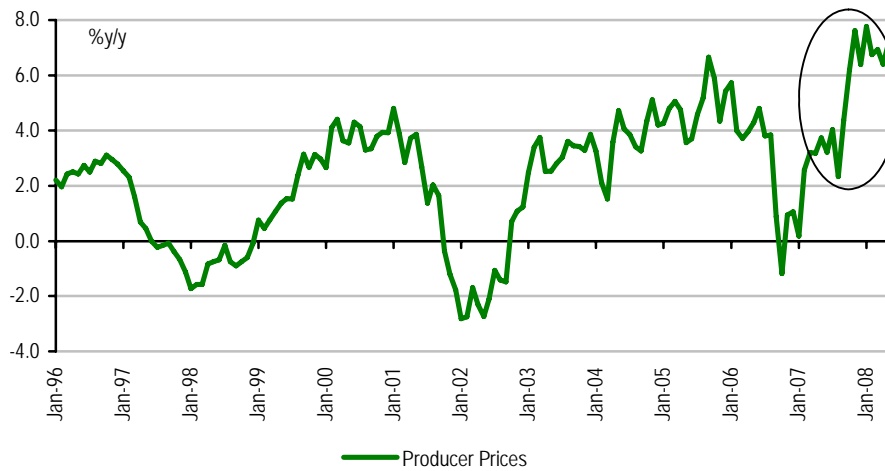
Counter to current market pricing, we still expect further Fed easing by the end of the year

**US consumer confidence**



Consumer confidence has fallen to recession-like levels

**US PPI inflation**



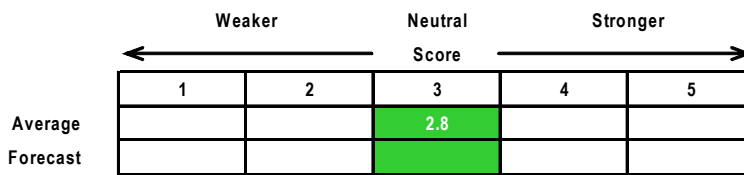
Rising PPI inflation is a threat to CPI inflation

Source: UBS, Haver

# Euro zone

## Economic activity

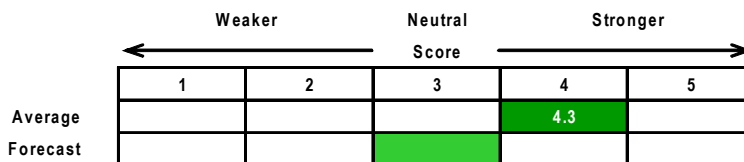
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Retail sales, %/y	0.0	-1.5	1.3	1.0	1.0
Consumer confidence ind.	-16.7	-14.6	-7.0	4.5	1.0
Industrial production, %/y	3.9	3.0	2.0	1.7	4.0
Production expectations, %	4.9	6.7	8.0	3.4	3.0
ZEW EU current cond.%	7.9	11.6	0.0	50.0	3.0
Unemployment rate (%)	7.2	7.2	8.6	0.7	5.0



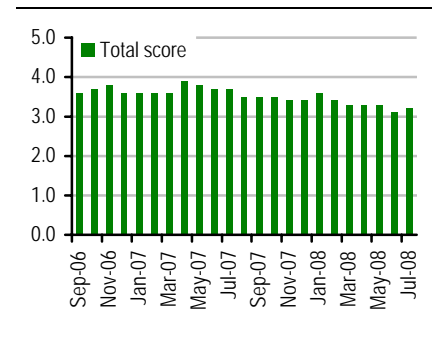
The Eurozone's consumer spending indicators have weakened markedly over the past few months and now lie at recession-like levels

## Financial and inflation

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
M3, %/y	11.2	11.1	6.9	2.1	5.0
Private credit: loans, %/y	10.3	10.5	8.2	2.7	4.0
Effective exchange rate	115.5	115.4	107.6	5.6	1.0
Producer prices, %/y	7.1	6.4	4.2	1.7	5.0
Wage inflation, %/y	3.4	3.4	2.2	0.3	5.0
Consumer prices, %/y	3.7	3.5	2.0	0.6	5.0
Core CPI, %/y	1.7	1.8	1.4	0.2	5.0

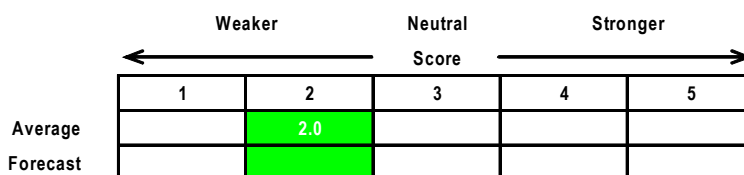


Financial and inflation indicators in contrast are mostly much firmer



## International

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US industrial prod., %/y	-0.1	0.5	1.8	1.1	1.0
US retail sales (value), %/y	2.5	2.6	6.9	1.6	1.0
US ISM index	50.2	49.5	53.0	3.6	2.0
UK retail sales, %/y	8.1	5.5	4.0	1.7	4.0

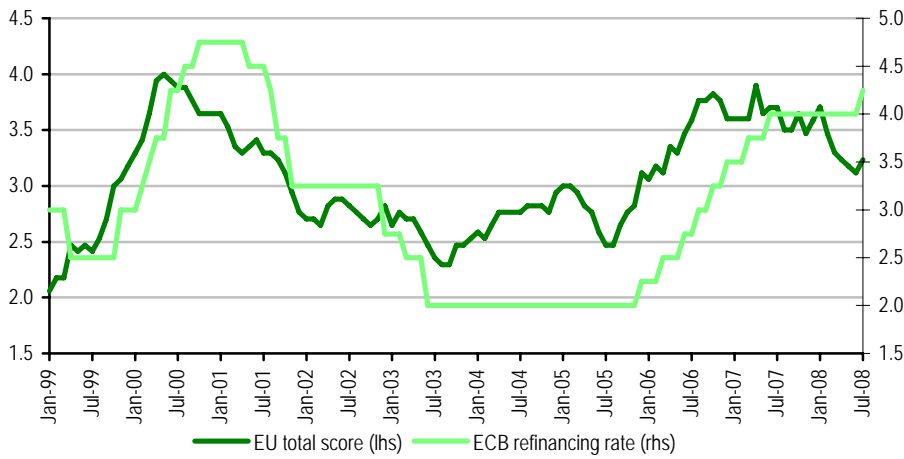


A weak US outlook poses some risk to European exports

Overall score: 3.2

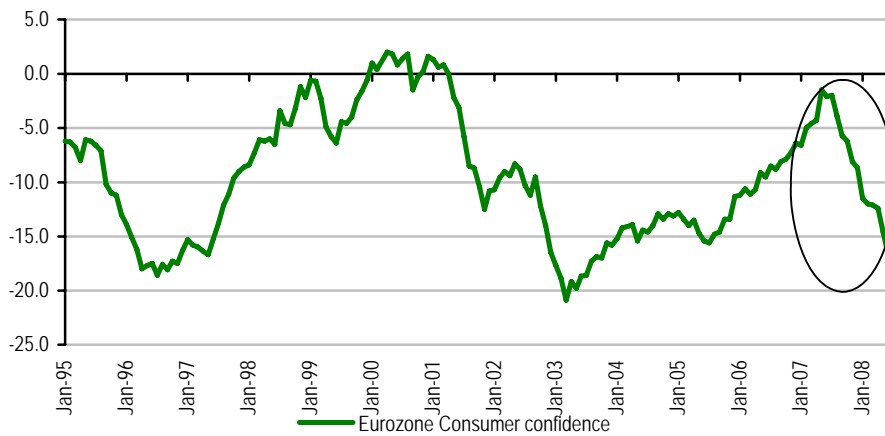
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

**Eurozone score versus refinancing rate**



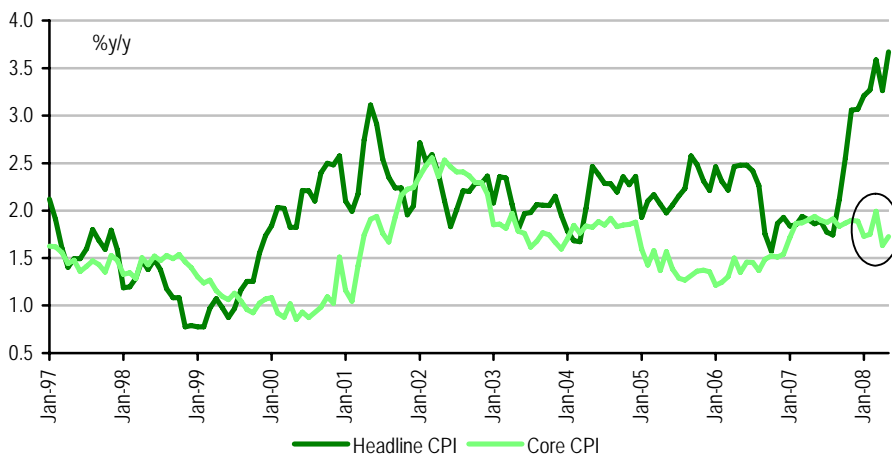
**Our score for the Eurozone has increased this month**

**Eurozone consumer confidence**



**Eurozone consumer confidence has plunged, with high energy prices and tighter credit conditions most probably to blame**

**Headline CPI and core inflation**



**Headline inflation continues to surge**

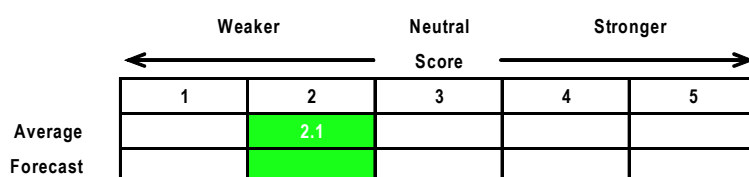
Source: UBS, Haver

# Japan

## Domestic activity

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Tankan survey index	5.0	6.7	19.8	7.2	1.0
Machinery orders, %/y	5.1	-0.2	6.8	8.1	2.0
Industrial production, %/y	4.2	2.4	3.0	2.5	3.0
Tokyo Dept store sales %/y	-0.9	-0.4	-1.8	2.9	3.0
Tertiary index, %/y	0.3	-0.6	2.4	1.5	1.0
Household spending, %/y	-3.2	-2.5	-0.7	2.2	2.0
Jobless rate, %	4.0	3.9	4.0	0.5	3.0

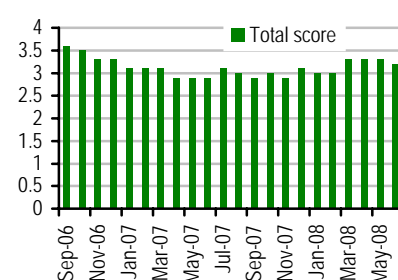
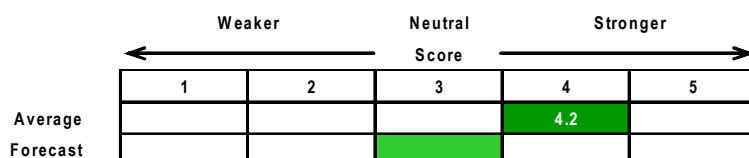
Japan's activity indicators have weakened



## Financial and inflation

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Bank lending growth, %/y	1.5	1.3	-1.5	2.3	5.0
Effective exchange rate	83.7	85.5	89.4	4.9	4.0
Corp. goods price ind, %/y	4.7	4.2	3.4	1.2	4.0
CPI, %/y	1.3	1.1	1.0	0.8	3.0
Core CPI, %/y	1.5	1.2	0.5	0.4	5.0
Cash earnings, %/y	0.2	0.8	-0.5	1.5	4.0

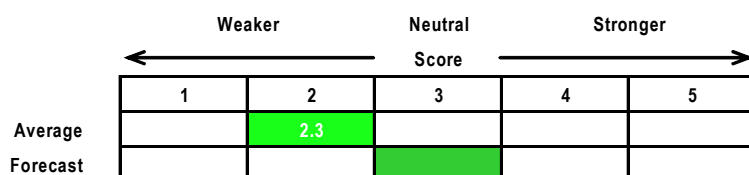
Headline and core inflation have risen



## International

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Global PMI manuf. index	49.5	50.0	52.4	1.9	1.0
China physical activity ind.	11.4	11.3	12.7	3.5	3.0
Global Industrial Prod. %/y	4.2	4.3	4.0	0.8	3.0

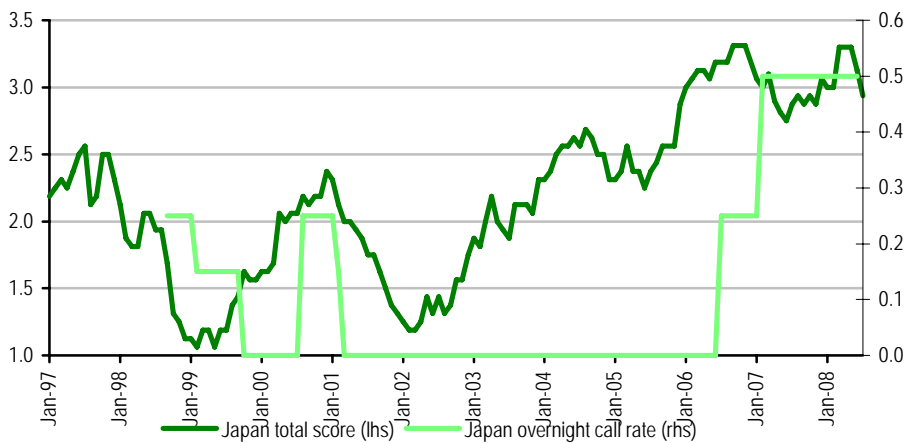
Global demand conditions are slightly less supportive



Overall score: 2.9

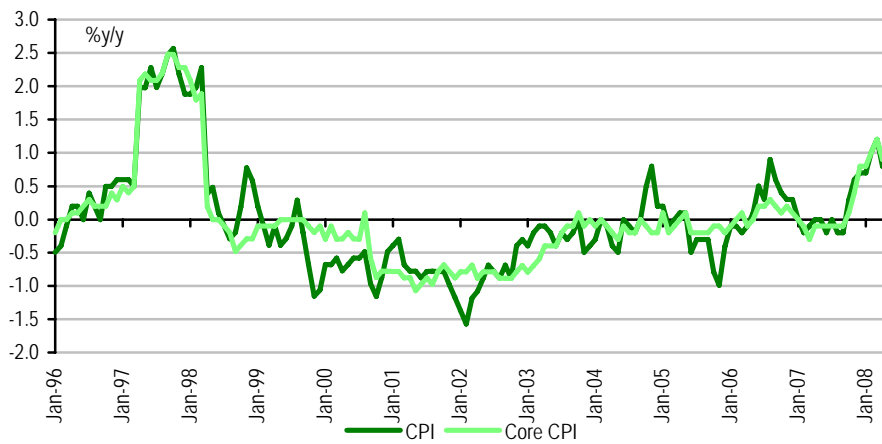
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

Japan score versus overnight call rate



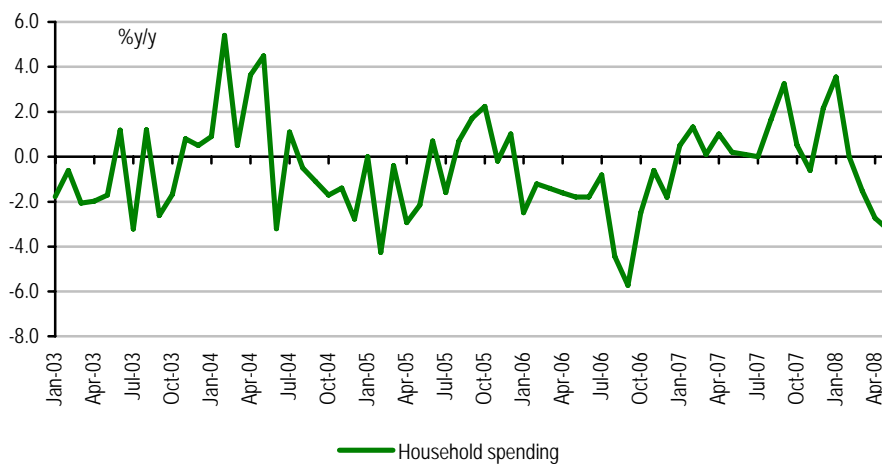
We expect the BoJ to leave policy rates unchanged this year

CPI



Both headline and core inflation continue to climb

Household spending



Weak household spending growth

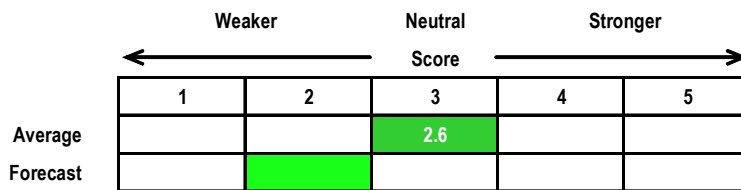
Source: UBS, Haver

# UK

## Domestic activity

Indicators	Latest	3-month Av.	Trend*	Std. Dev.	Score
Retail sales volume, %y/y	8.1	5.5	4.0	1.7	4.0
Retail sales value, %y/y	7.8	4.5	4.0	2.0	3.0
Manufacturing output, %y/y	-0.8	-0.1	1.0	1.5	2.0
CBI output expectations	2.0	0.7	8.3	8.3	2.0
Unemployment rate (%)	5.3	5.2	5.0	0.3	2.0

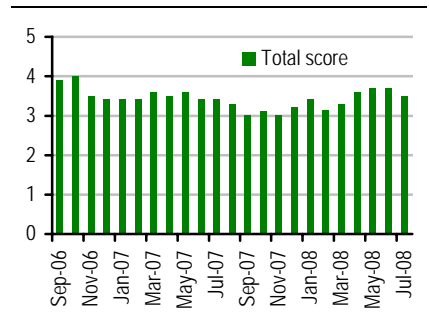
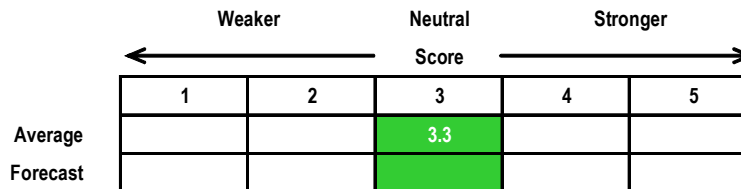
Our UK activity indicators have been mixed in recent months



## Financial

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
M4 deposits, %y/y	10.0	10.9	9.5	1.6	4.0
M4 lending, %y/y	11.3	12.0	11.0	1.3	4.0
Halifax house prices, %y/y	-6.4	-3.8	8.1	6.4	1.0
Exchange Rate Index	92.8	92.7	95.8	3.2	4.0

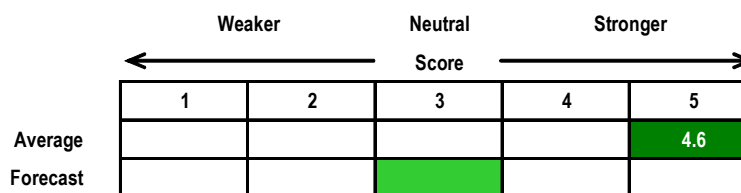
Monetary growth rates have started to ebb



## Inflation

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Producer input prices, %y/y	27.6	24.5	1.6	7.7	5.0
Producer output prices %y/y	8.9	7.7	2.6	1.7	5.0
Average earnings, %y/y	3.8	3.9	4.0	0.5	3.0
RPIX, %y/y	4.3	3.9	2.5	0.6	5.0
CPI, %y/y	3.3	2.9	2.0	0.6	5.0

Consumer and producer price inflation rates remain high for the BoE's comfort at present

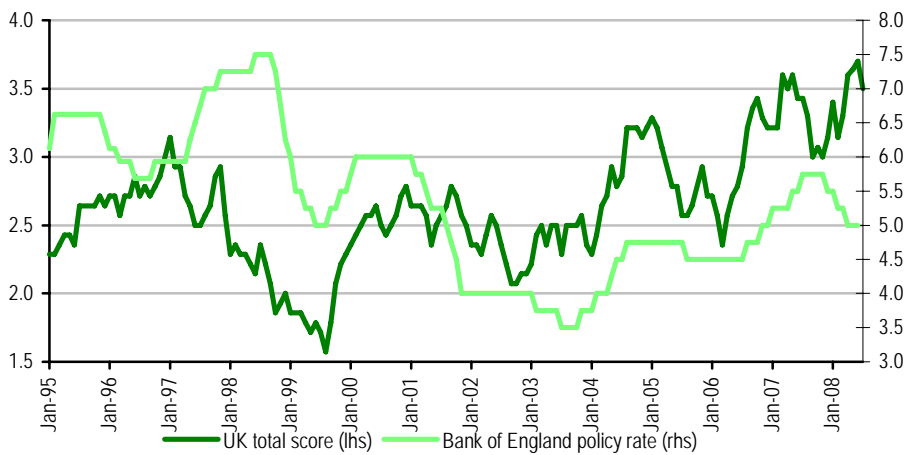


**Overall score: 3.5**

Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

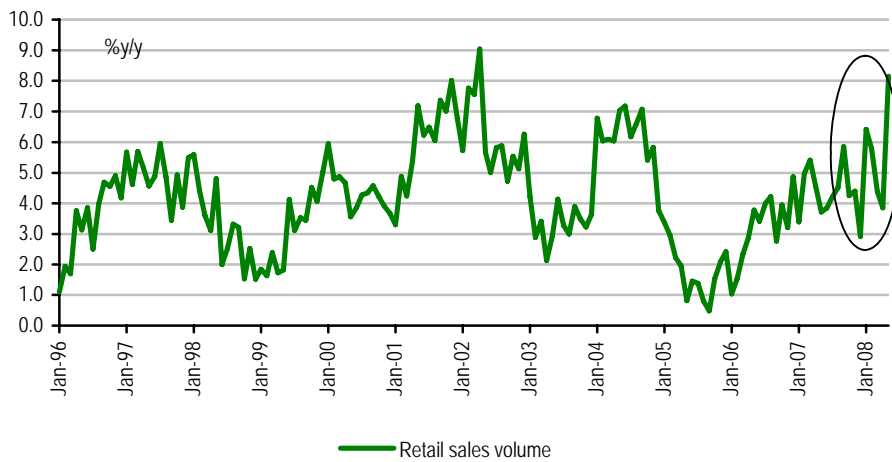


**UK score versus Bank rate**



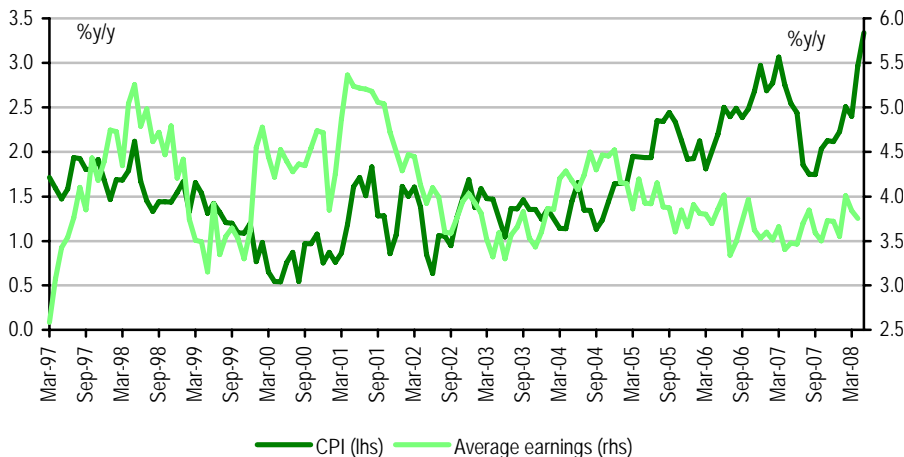
We now expect the MPC to remain on hold for the time being but to start cutting rates again in November. We now expect 75bps of further cumulative easing by the end of 2009

**Retail sales**



A surprising surge in retail sales growth

**Average earnings growth**



Average earnings growth remains fairly subdued while headline CPI continues to rise

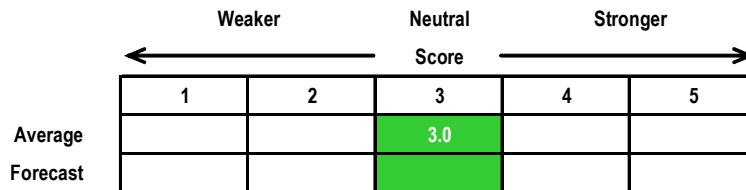
Source: UBS, Haver

# China

## Activity

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
UBS expenditure ind. %y/y	8.0	9.7	13.4	2.1	1.0
China physical activity ind.	11.4	11.3	12.7	3.5	3.0
NBS PMI, index	52.0	54.8	55.3	1.2	3.0
CLSA PMI, index	53.3	54.5	53.0	1.4	5.0

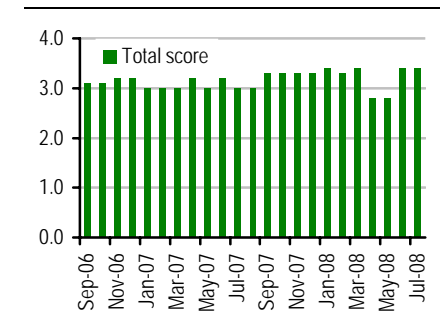
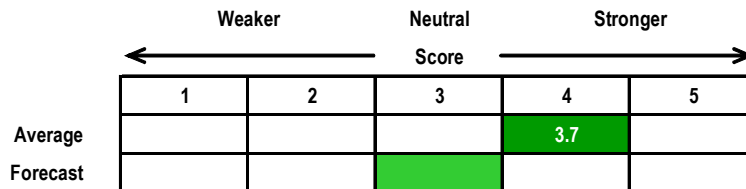
Some of China's high-frequency activity indicators have weakened in recent weeks



## Money and credit

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
M2 money supply, %y/y	18.1	17.0	17.3	1.9	3.0
Loans of fin institut., %y/y	14.9	14.8	15.6	4.2	3.0
Base money growth, %y/y	14.4	19.0	9.9	5.1	5.0

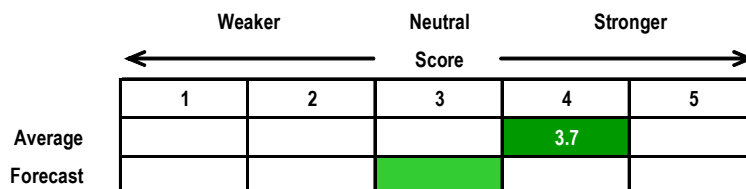
Money growth remains stable



## Trade

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Export growth %y/y	27.9	24.0	29.9	13.8	3.0
Import growth %y/y	39.6	28.9	27.5	13.8	3.0
Trade balance, USD mn	19272.0	19384.3	10586.9	6604.2	5.0

Export growth has rebounded a little

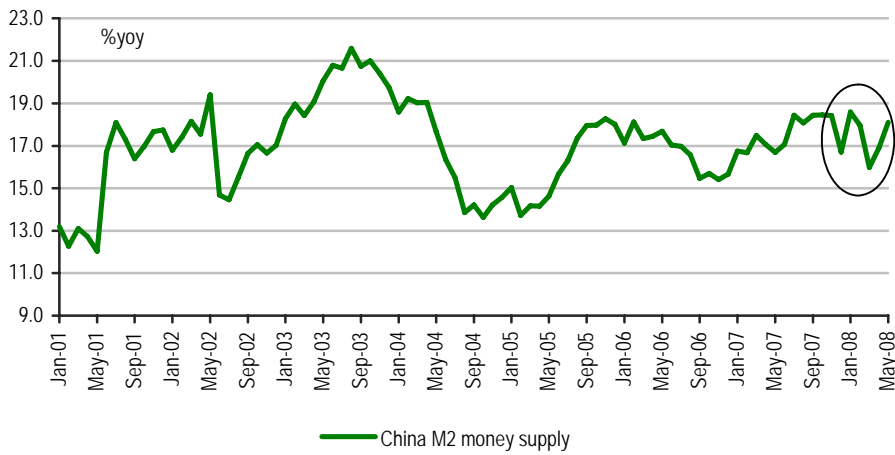


Overall score: 3.4

Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

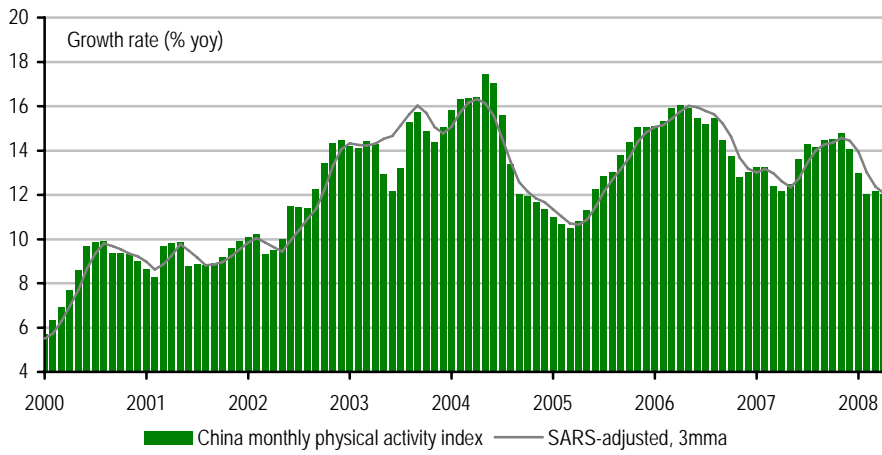
**China M2 money supply**

Broad money growth is stable



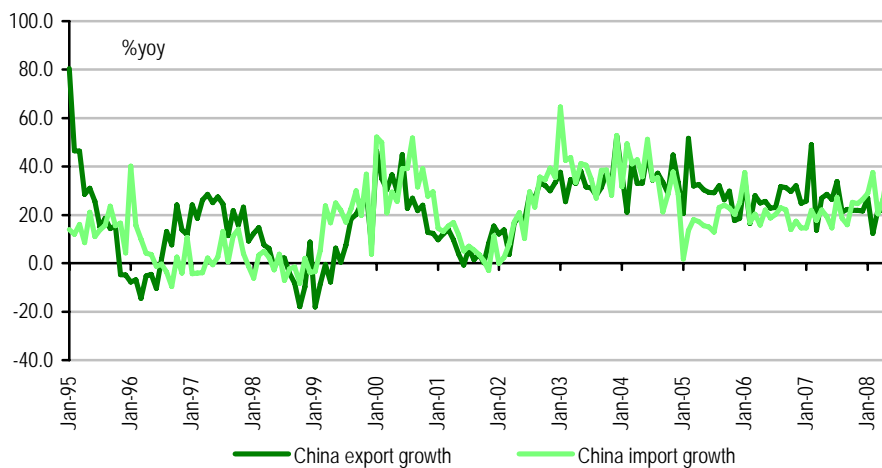
**China's physical activity index**

Softer physical activity



**Export and import growth**

Import growth has picked up pace



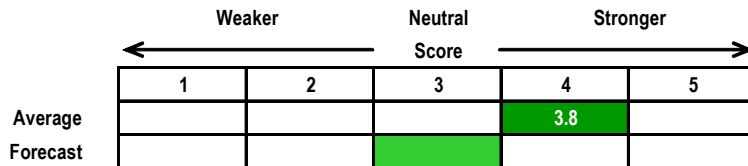
Source: CEIC, UBS, Haver

# Emerging economies

## Industrial production and exports

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Asian Industrial Prod., %/y	10.4	10.8	9.2	0.9	5.0
India Industrial Prod., %/y	7.0	6.6	7.2	3.0	3.0
Latam Industrial Prod., %/y	3.8	4.2	4.0	3.9	3.0
Asian exports, %/y	23.4	22.0	10.6	11.4	4.0

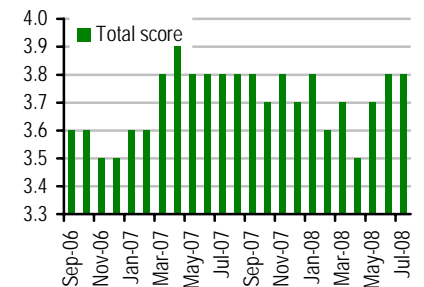
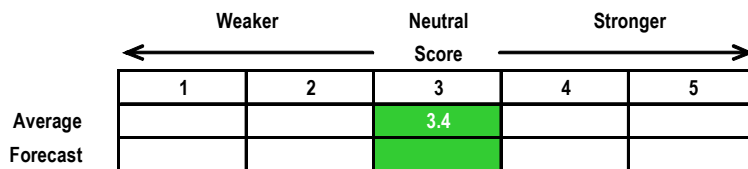
Growth momentum has weakened of late in much of the emerging economy complex



## Inflation and monetary

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Asian CPI, %/y	6.3	5.8	3.7	2.4	4.0
Asian M1 growth, %/y	11.1	11.3	10.9	5.3	3.0
Asian bank credit, %/y	16.3	15.4	11.0	6.6	4.0
Latin America CPI, %/y	6.0	5.9	6.6	2.9	3.0
Emerging Europe CPI, %/y	12.1	11.4	8.9	21.8	3.0

Inflationary pressures however have continued to mount, particularly in Asia

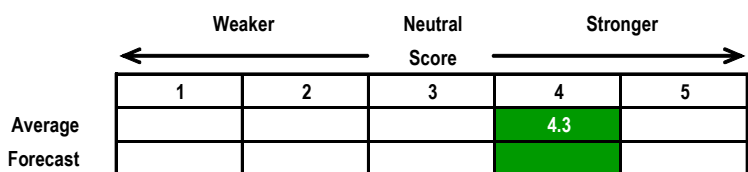


## Stress indicators\*

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
EMBI spread, %	297.8	271.3	241.4	46.2	2.0
UBS Asian stress index	0.6	0.6	1.0	0.1	5.0
UBS Latam stress index	0.7	0.7	1.0	0.1	5.0
UBS Emerg. EU stress ind.	0.9	0.9	1.0	0.0	5.0

Financial stress indicators remain subdued

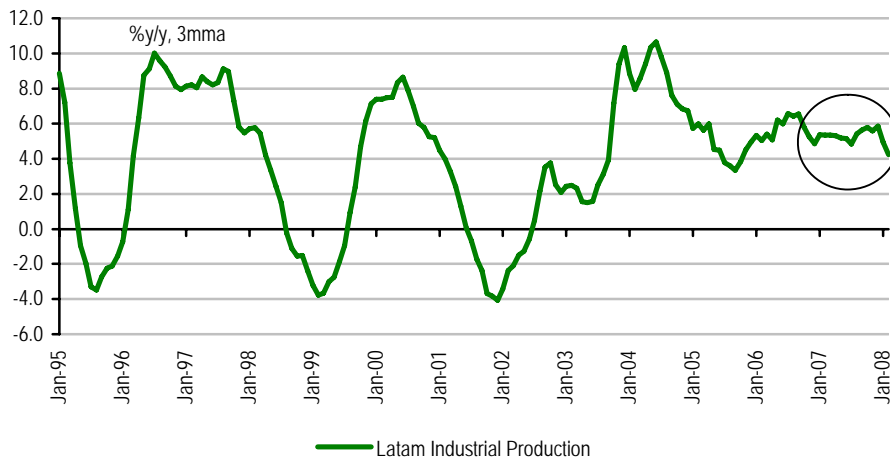
\* A high score indicates less financial stress



Overall score: 3.8

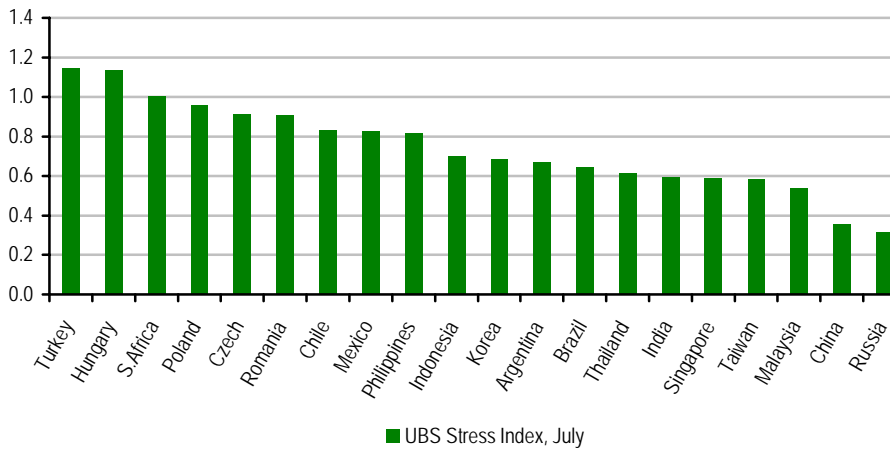
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

### Latin American industrial production



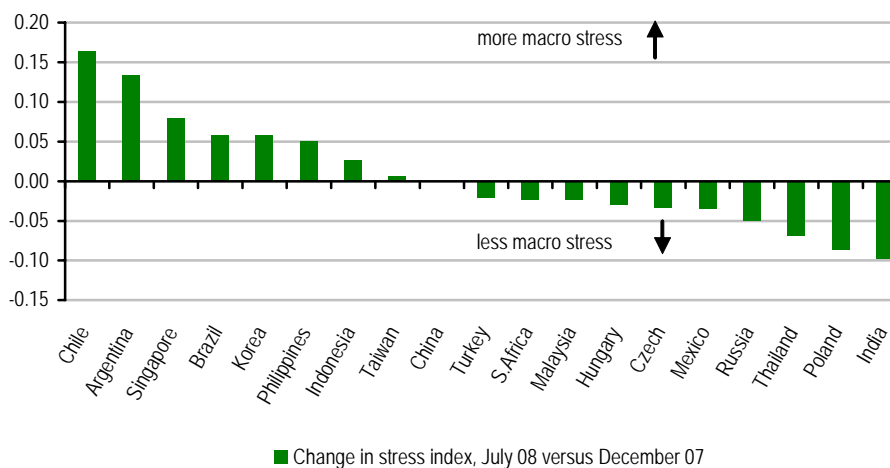
Latin America's industrial production growth has slowed

### UBS Stress Index



Several Eastern European economies, such as Turkey and Hungary, appear vulnerable, according to our financial stress indicators. China and Russia look least vulnerable

### Change in stress index from November 2007



Relative to their position six months ago, Chile and Argentina have become more vulnerable while Poland and India have become less at risk

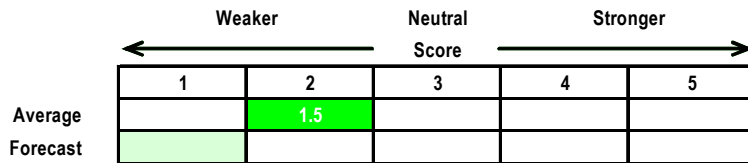
Source: UBS, Haver, OEF

# Global consumer spending

## Global

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
G7 retail sales growth % y/y	-0.9	0.1	1.7	0.8	1.0
G7 employment, % y/y	0.7	0.8	1.0	0.4	3.0
G7 RPDl growth %y/y	1.4	1.6	2.3	0.4	1.0
Global consumer conf. ind.	-1.7	-1.4	0.0	0.8	1.0

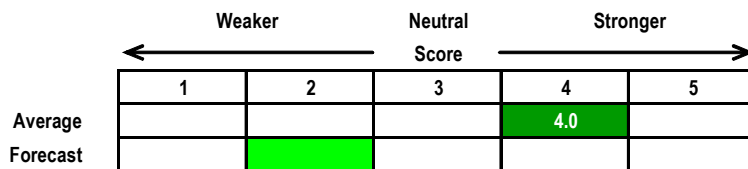
Our global consumption gauges have weakened in recent weeks



## Income

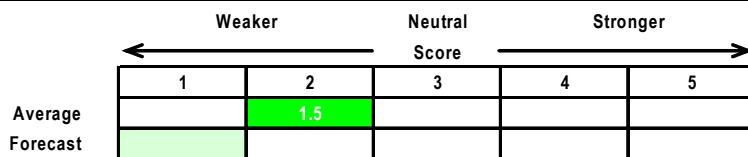
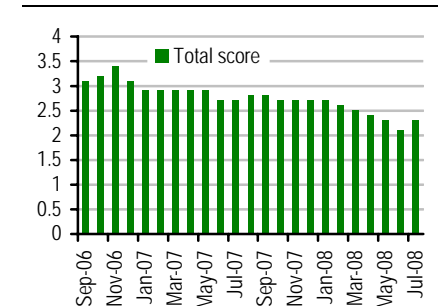
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US pers. dispos. inc., %y/y	10.7	6.7	6.0	1.2	4.0
EU13 pers. comp., %y/y	4.8	4.6	2.7	0.7	5.0
Japan pers. comp., %y/y	1.4	1.0	0.7	1.9	3.0

US personal disposable income has been boosted by income tax rebates. This is not expected to last, however



## Housing market

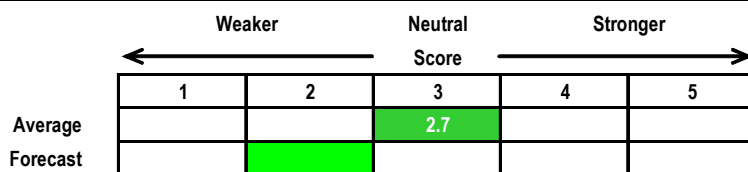
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US OFHEO prices, %y/y	0.0	0.3	7.0	3.5	1.0
US exist. house prices %y/y	-6.3	-7.6	6.4	4.1	1.0
EU house prices, %y/y	6.2	6.2	5.3	2.1	3.0
UK house prices, %y/y	-6.4	-3.8	8.1	6.4	1.0



## Household financial balances, % of GDP

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US	-2.2	-2.4	-1.8	1.3	3.0
EU	5.2	5.1	4.8	0.5	4.0
UK	-3.6	-3.9	-0.3	2.0	1.0

US and UK balance sheets remain stretched



Overall score: 2.3

Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

## UBS estimates of US household cash flow

	2004	2005	2006	2007	2008 F	2009 F
Median household income	44,334	46,326	48,201	49,454	50,542	51,452
Taxes per household	7,130	8,876	9,640	10,039	9,906	10,393
Mortgage payments	14,086	16,349	18,325	18,736	18,774	18,265
Other debt payments	281	293	315	324	326	328
Post-tax and interest income	22,837	20,808	19,921	20,355	21,535	22,467
% change	-2.2	-8.9	-4.3	2.2	5.8	-10.0
Fuel and energy costs	2,221	2,665	2,961	3,849	4,812	4,331
Other utility costs	1,577	1,763	1,853	2,434	3,012	2,698
US household cash flow	19,038	16,379	15,106	14,071	13,712	15,438
% change	-4.6	-14.0	-7.8	-6.9	-2.6	12.6

US household cash flow has been under pressure from higher debt servicing, as well as soaring energy costs. These factors are, according to our estimates, more than offsetting the positive impact on household cash flow from the tax rebates

## UBS estimates of EU13 household cash flow

	2004	2005	2006	2007	2008 F	2009 F
Median Household Income	43,629	44,651	46,358	48,059	49,415	50,605.9
Taxes per household	17,040	17,276	17,652	18,002	18,216	18,414.16
Subsidies per household	15,169	15,469	15,775	16,088	16,406	16,731.08
Mortgage payments	2,733	2,859	3,132	3,322	3,538	3,393.889
Other debt payments	2,501	2,578	2,607	2,619	2,731	2,790.139
Post-tax and debt payment income	36,523	37,407	38,742	40,204	41,337	42,739
% change	2.2	2.4	3.6	3.8	2.8	3.4
Petrol costs	2,389	2,468	2,550	2,641	2,746	2,827.42
Utility and other costs	1,785	1,897	1,975	2,053	2,125	2,187.632
Euro area household cash flow	32,350	33,042	34,216	35,509	36,466	37,724
% change	2.1	2.1	3.6	3.8	2.7	3.4

EU13 cash flow has been more stable, a function of lower mortgage debt levels relative to the US and the UK

## UBS estimates of UK household cash flow

	2004	2005 F	2006 F	2007 F	2008 F	2009 F
Median Household Income	30,896	32,157	33,476	34,788	36,330	37,729
Taxes per household	8,402	8,762	9,140	9,508	9,588	9,848
Mortgage payments	5,550	6,186	6,776	7,719	8,340	8,553
Other debt payments	1,095	1,169	1,164	1,231	1,308	1,303
Post-tax and interest income	15,849	16,040	16,396	16,330	17,094	18,025
% change	-0.2	1.2	2.2	-0.4	4.7	5.4
Petrol costs	1,196	1,301	1,372	1,409	1,694	1,754
Utility and other costs	4,165	4,234	4,398	4,495	4,679	4,879
UK household cash flow	10,488	10,506	10,626	10,426	10,721	11,393
% change	-1.4	0.2	1.1	-1.9	2.8	6.3

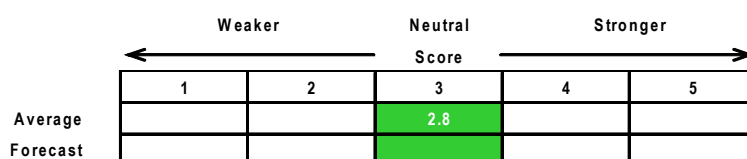
UK cash flow may recover next year if, as we envisage, the Bank of England begins easing monetary policy again toward the end of this year

# Global capital investment

## Global

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
G7 capital investment, %y/y	0.4	0.5	2.8	1.7	1.0
Global GDP growth, %y/y	3.9	4.1	3.8	1.0	3.0
Global output gap, % GDP	-0.6	-0.6	-1.1	0.6	4.0
G3 cap. goods orders, %y/y	1.9	3.0	7.8	7.8	2.0
G7 capital goods price ind.	1.0	1.0	1.0	0.0	4.0

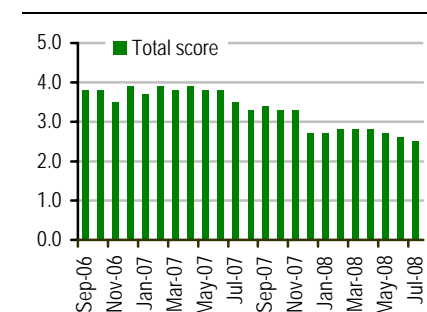
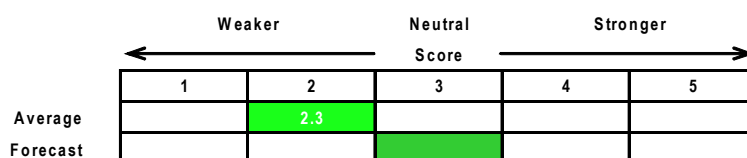
Global indicators of capex activity have weakened



## Capex intentions

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US Philadelphia outlook ind	3.8	12.5	16.9	5.6	2.0
German IFO Bus. Expec ind	94.7	96.2	97.0	3.8	3.0
UK CBI index	-18.0	-16.0	-8.8	13.5	2.0

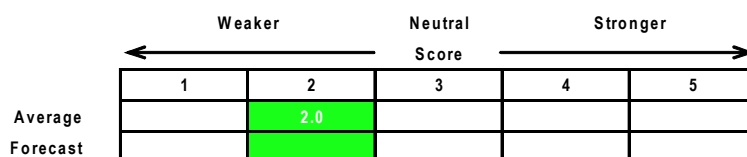
Capex intentions have also mostly been weak



## Corporate financial balances, % of GDP

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US	0.3	0.3	-0.4	1.9	3.0
EU	-2.8	-2.2	-1.0	1.2	2.0
Japan	4.9	-0.8	5.2	3.8	1.0

Corporate cash balances are not as flush as they were last year



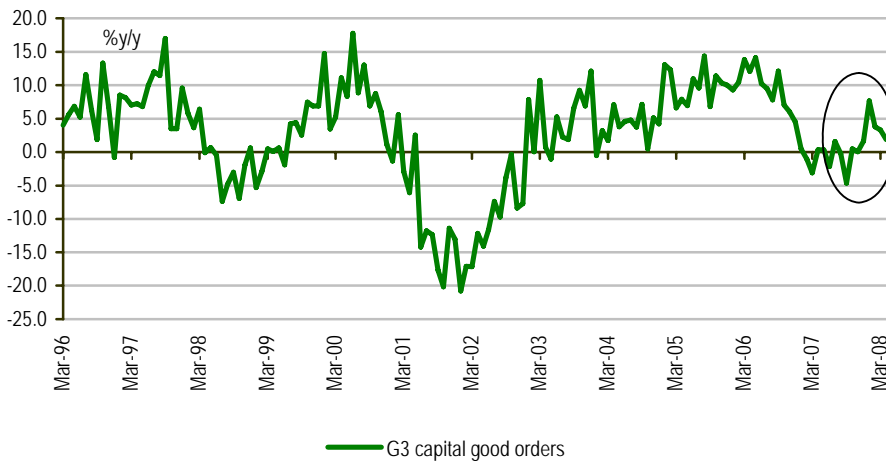
Overall score: 2.5

Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.



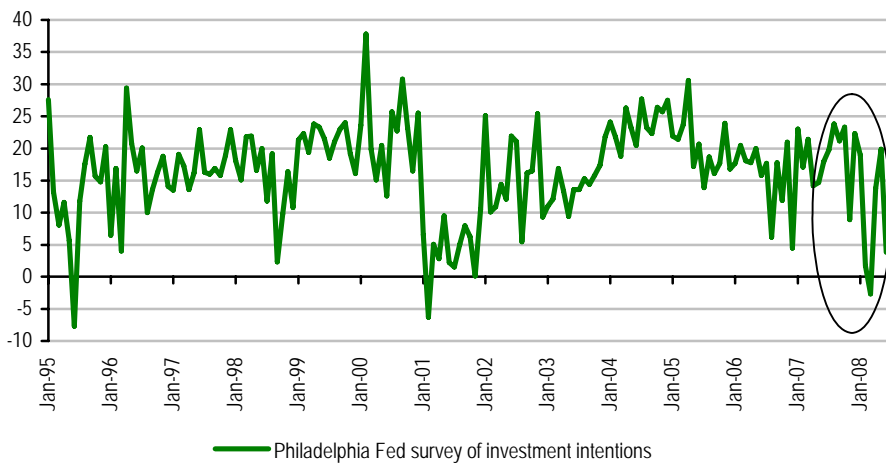
**G3 capital goods orders**

**G3 capital goods orders have been firmer than expected**



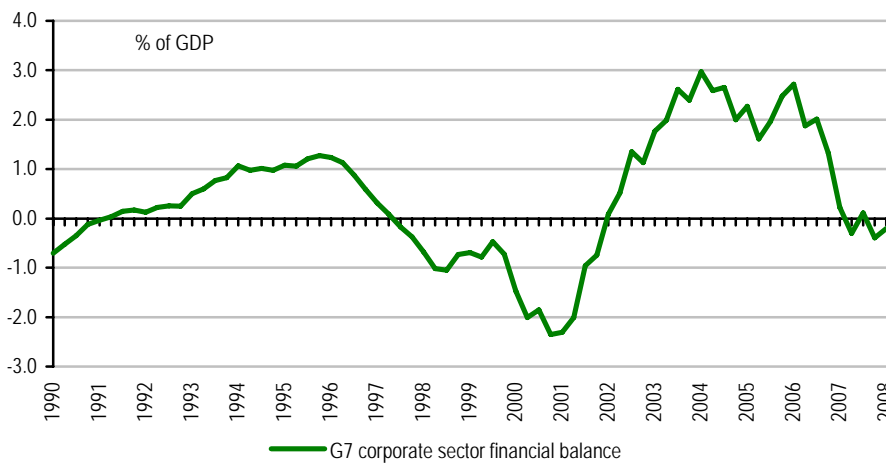
**Philadelphia Fed survey of investment intentions**

**Weaker capex intentions**



**G7 corporate balance sheets**

**Corporate balance sheet strength has receded across the G7**



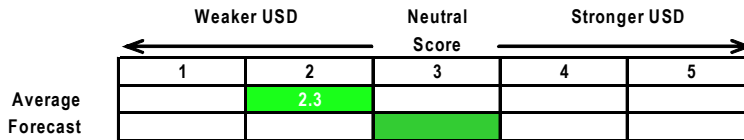
Source: UBS, Haver, OEF

# The US dollar

## Exchange rate momentum

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Euro	1.58	1.6	1.5	0.1	1.0
Yen	105.70	104.2	105.9	4.2	3.0
Renminbi	6.90	7.0	7.1	0.2	1.0
Sterling	1.97	2.0	2.0	0.0	4.0

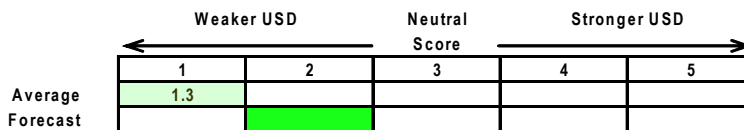
The dollar has been on a stronger footing in recent days, though the trend has been fairly weak against most major currencies except sterling



## Interest differentials

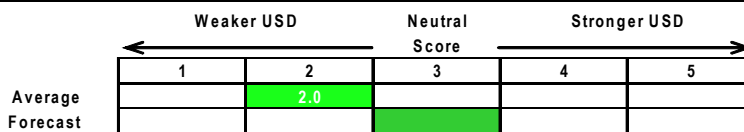
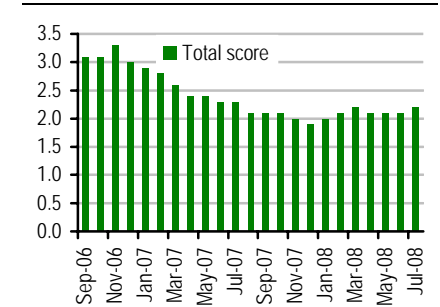
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US/Global real short rate	-2.4	-2.4	0.2	1.3	1.0
US/Global real long rate	-1.1	-1.2	-0.4	0.8	2.0
US/Global nom. short rate	-1.4	-1.4	1.3	1.3	1.0
US/Global nominal long rate	-0.1	0.0	0.7	0.5	1.0

Narrowing interest differentials have undermined support for the dollar in recent months



## US financing and risk

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Current ac. def. (% of GDP)	-5.0	-4.9	-4.0	0.5	1.0
US net invest. Income*	21.0	22.6	8.5	5.2	5.0
US net FDI (% of GDP)	-0.3	-0.3	0.0	0.3	1.0
UBS risk indicator	-1.0	-0.4	0.0	0.0	1.0

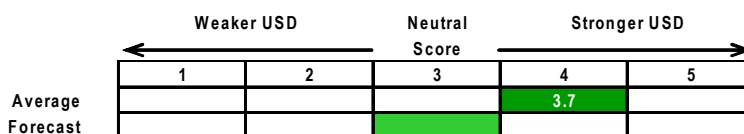


The dollar looks under-valued versus the euro

## Fair value

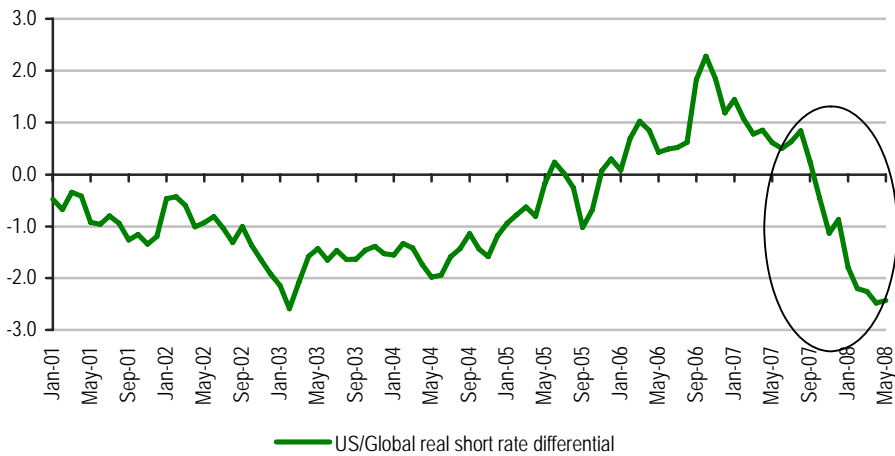
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
USD vs real eff. exch. rate	0.8	0.8	1.0	0.1	5.0
EUR relative to PPP	1.4	1.4	1.0	0.1	5.0
JPY relative to PPP	1.3	1.3	1.0	0.1	1.0

Overall score: 2.2



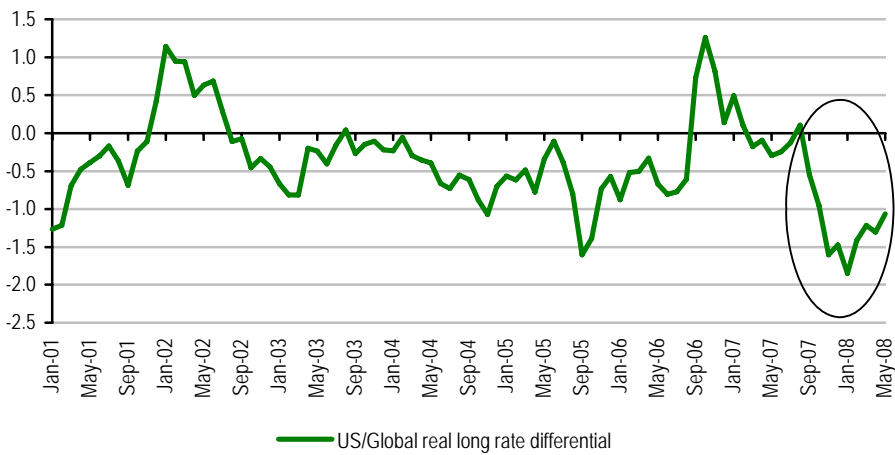
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

**US-Global real short rate differential**



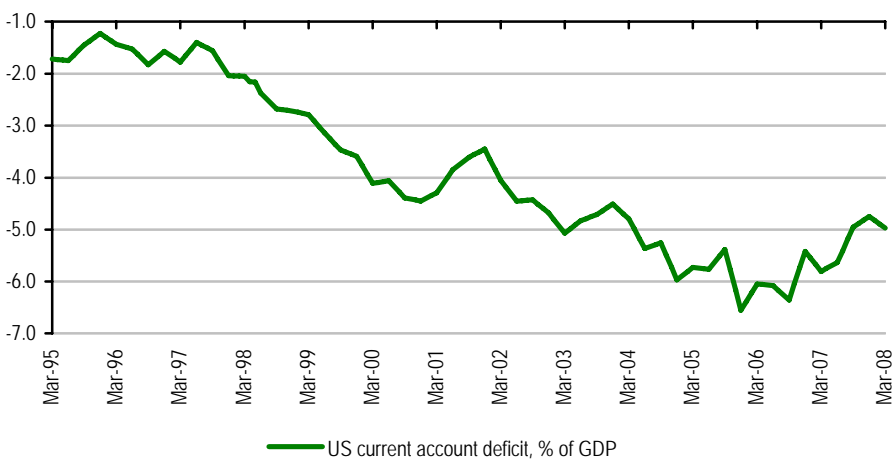
Real short-rate differentials have moved sharply against the US undermining its attractiveness

**US-Global real long rate differential**



Real long-rate differentials have reversed their narrowing trend in recent weeks, however

**US current account deficit**



The US current account deficit remains high

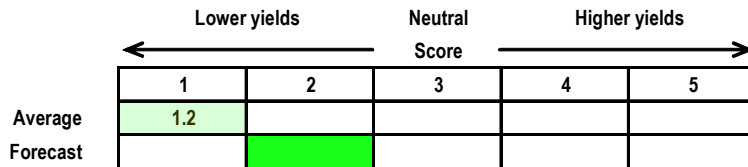
Source: UBS, Haver

# Government bond markets

## Real yields

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
10 yr US ILB yield (2012)	0.4	0.6	2.0	0.7	1.0
Global growth surprise ind.	123.8	123.5	128.7	2.5	1.0
UBS global growth score	2.4	2.5	3.1	0.4	1.0
US real GDP growth, %y/y	2.5	2.5	3.2	1.2	2.0
Real Fed funds rate	-2.1	-1.9	1.5	1.8	1.0

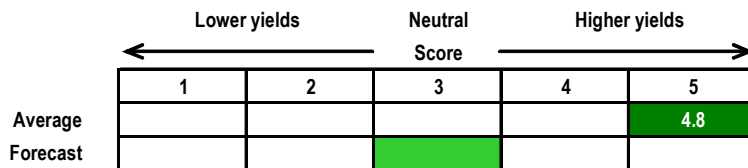
Easier US monetary policy has undermined support for real yields



## Inflation expectations

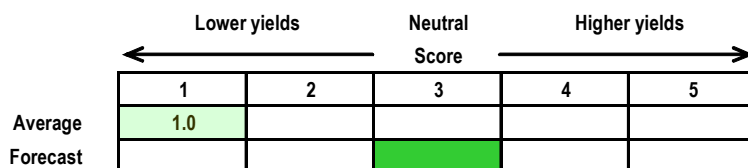
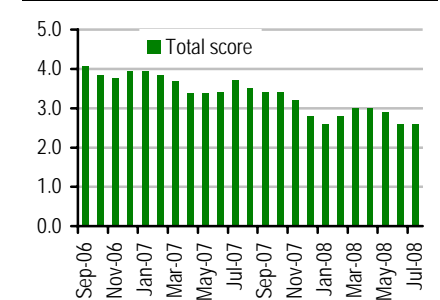
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US inflation breakeven 5 yr	2.4	2.5	2.2	0.3	4.0
EU inflation breakeven 10 yr	2.7	2.6	2.2	0.1	5.0
Global inflation surprise ind.	85.6	84.9	79.0	2.4	5.0
UBS global inflation score	3.9	3.8	2.8	0.4	5.0

Short-term inflation expectations remain elevated owing to high energy prices and higher-than-expected inflation data



## Risk and positioning

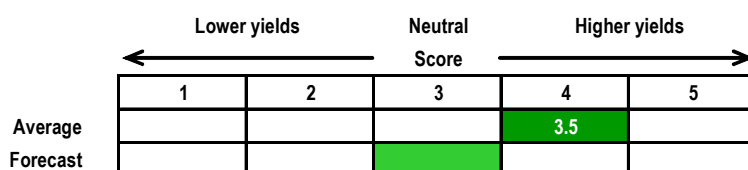
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
UBS risk indicator	-1.0	-0.4	0.0	0.0	1.0
SMR survey of duration	99.2	99.4	100.0	0.3	1.0



US yield levels are low relative to the current pace of nominal GDP growth

## Fair value

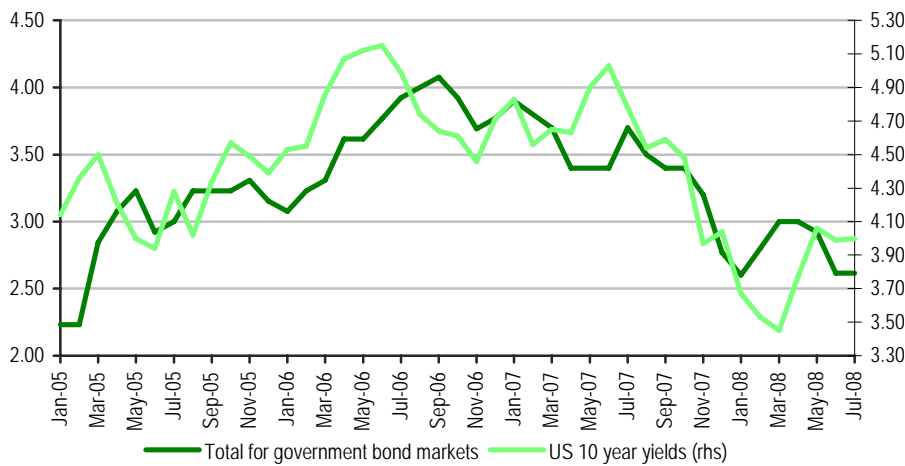
Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
US nominal GDP less 10 yr%	1.3	1.2	0.0	1.3	4.0
G7 nominal GDP less 10 yr%	0.4	0.3	0.0	1.1	3.0



Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

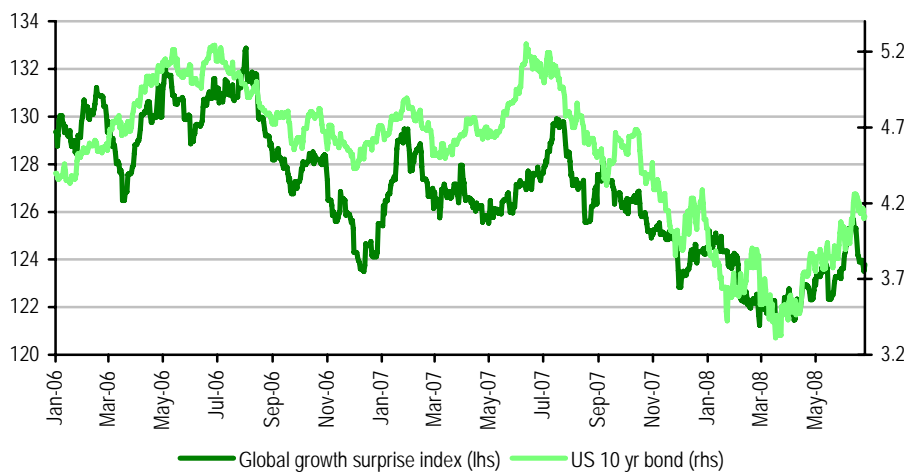
Overall score: 2.6

**Bond market score versus US nominal yields**



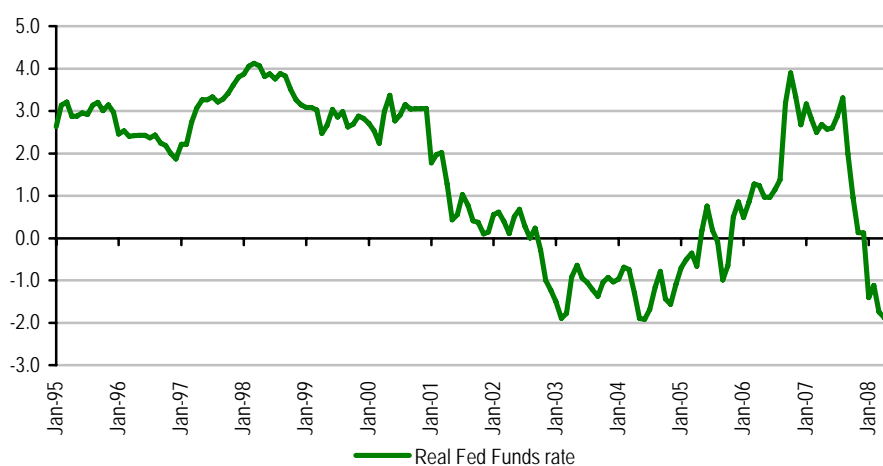
Our score for government bond yields remained stable this month

**US 10 year yield versus global growth surprise index**



US yields have been closely correlated with the pattern of our global growth surprise index

**Real Fed funds rate**



The real Fed funds rate is now negative thanks to an aggressive policy response from the Fed, but also higher inflation

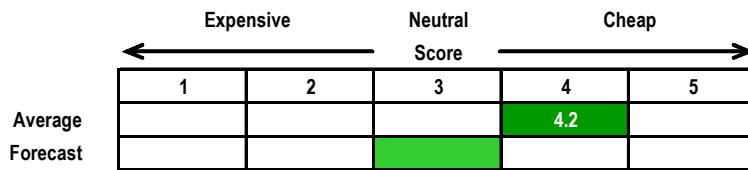
Source: UBS, Haver, Bloomberg

# Equities

## Equity market valuation

Indicators	Latest	10-year Av.	Trend	Std. Dev.	Score
MSCI World cons. fwd PE	11.9	17.4	16.5	3.9	5.0
MSCI World PBV (trailing)	2.6	2.8	2.8	0.6	3.0
MSCI World Dividend Yield	2.0	1.9	1.9	0.3	3.0
S&P500 12m fwd PE	13.2	18.0	17.2	3.4	5.0
MSCI Europe 12m fwd PE	10.0	15.4	14.7	3.9	5.0
MSCI Japan 12m fwd PE	15.2	21.3	20.3	5.2	4.0

(Target PE is 10 year average PE \* current World consensus EPS relative to 10y log trend)

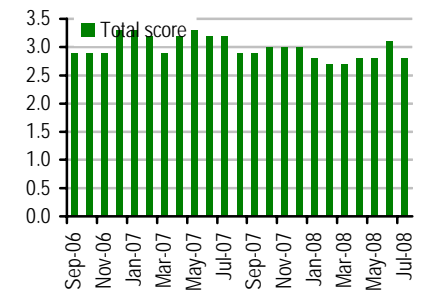
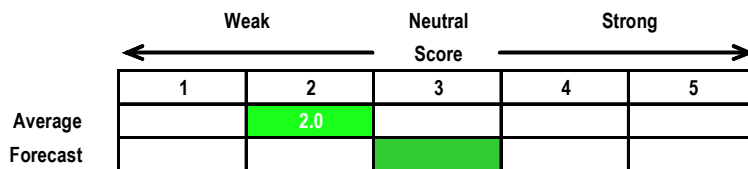


According to most of our valuation yardsticks, equity markets are trading below fair value

## World Equity Market Momentum

Indicators	Latest	10-year Av.	Trend	Std. Dev.	Score
Consensus EPS revs, 1m%	-0.2	-0.5	-0.5	1.2	3.0
Consensus EPS revs, 3m%	-1.2	-1.2	-1.2	3.1	3.0
Consensus EPS revs, 6m%	-5.4	-1.6	-1.6	5.4	2.0
Price Momentum, 3m (%)	-7.1	1.1	1.1	7.3	1.0
Price Momentum, 6m (%)	-12.8	2.4	2.4	10.5	1.0
Price Momentum, 12m (%)	-14.9	5.2	5.2	17.1	2.0

Momentum indicators have weakened, however, in recent weeks



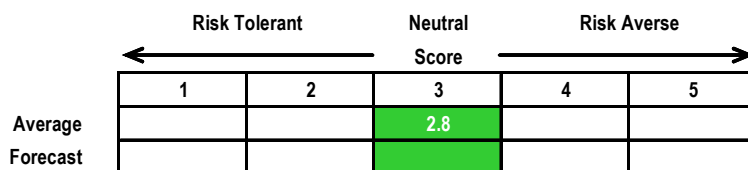
## Risk Appetite

Indicators	Latest	10-year Av.	Trend	Std. Dev.	Score
Global Eq. Ind. Option Volatil.	-1.2	0.0	0.0	1.0	1.0
Credit & FX Conditions (*)	-0.8	0.0	0.0	1.0	3.0
Equity Market Positioning (**)	-0.5	0.0	0.0	1.0	3.0
Global Risk Appetite Indicator	-1.0	0.0	0.0	1.0	1.0

Risk appetite has faltered

\* an aggregate of credit spreads, swaps spreads and FX option vol

\*\* an aggregate of cyclical vs defensive performance, and excess performance by high beta regions/sectors



Overall score: 2.8

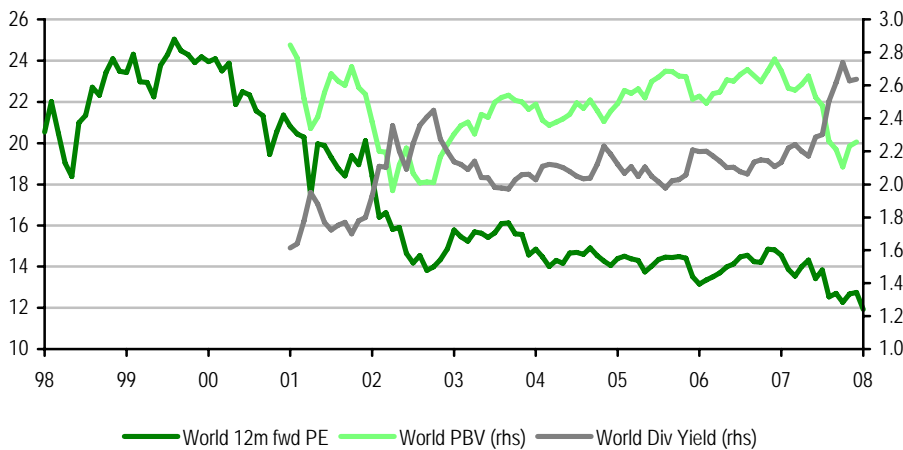
Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

Equity indices



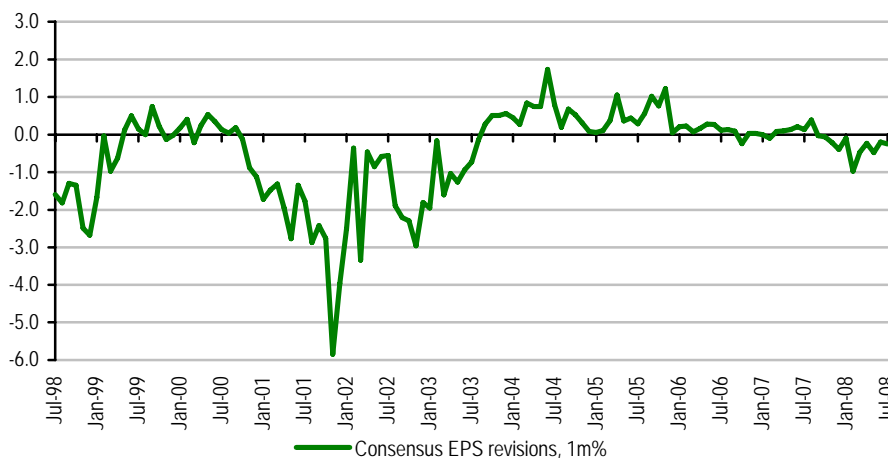
Most major equity indices have softened in recent weeks

World valuations



Global valuations remain reasonable

Consensus EPS revisions



Consensus earnings expectations have declined somewhat but overall remain resilient to signs of weaker economic activity. Lower unit labour costs in the US may be one factor, strong returns in the energy and basic materials sector is another.

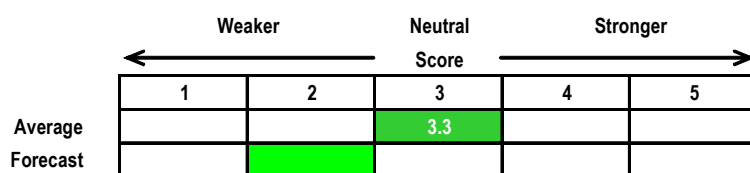
Source: BS, Thomson Financial

# Oil and commodities

## Global

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Global GDP growth, %/y	3.9	4.1	3.8	1.0	3.0
Global Industrial Prod %/y	4.2	4.3	4.0	0.8	3.0
China Industrial Prod., %/y	16.0	16.5	14.9	1.4	5.0
US ISM index	50.2	49.5	53.0	3.6	2.0
Real G7 interest rates, %	0.6	0.7	0.9	0.4	3.0
US Effective Exch. rate ind.	96.1	95.8	103.4	7.9	4.0

Activity indicators for the commodity markets have softened somewhat in recent months and most notably global industrial production

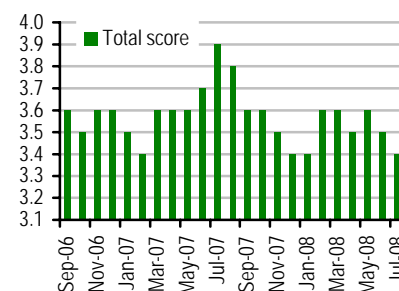
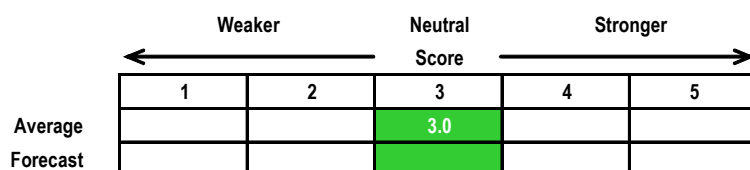


## Oil demand and supply

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
World oil demand, %/y	1.1	1.3	1.7	2.1	3.0
US oil inventories, mil bbls	299.8	308.8	310.9	19.0	3.0

World oil demand has slowed

Higher inventory readings are a negative for commodity prices, and are thus assigned a lower relative score.

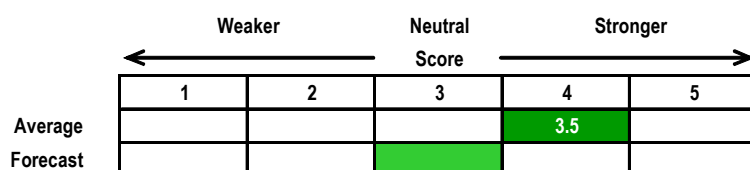


## Inventories (000 metric tons)\*

Indicators	Latest	3-month Av.	Trend	Std. Dev.	Score
Aluminium Stocks	1092.5	1070.1	829.1	296.2	2.0
Copper Stocks	122.6	119.8	438.3	314.6	5.0
Lead Stocks	101.9	74.5	107.4	51.1	4.0
Nickel Stocks	46.5	48.8	21.9	15.7	1.0
Tin Stocks	6.8	7.4	14.5	8.9	4.0
Zinc Stocks	153.6	141.2	414.0	203.9	5.0

Mixed inventory readings for metals

\* Higher inventory readings are a negative for commodity prices, and are thus assigned a lower relative score.



Overall score: 3.4

Source: UBS Note: Values outside one SD merit a '1' or '5' score, one half SD a '2' or '4', and a '3' otherwise.

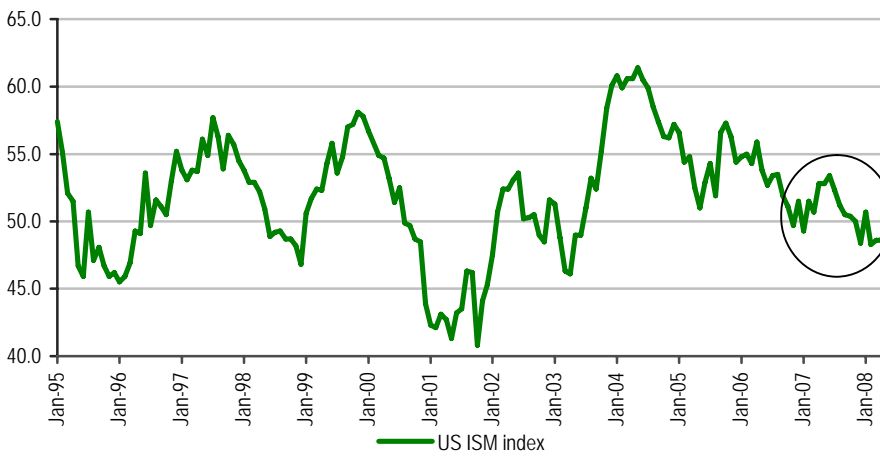


**Global industrial production**



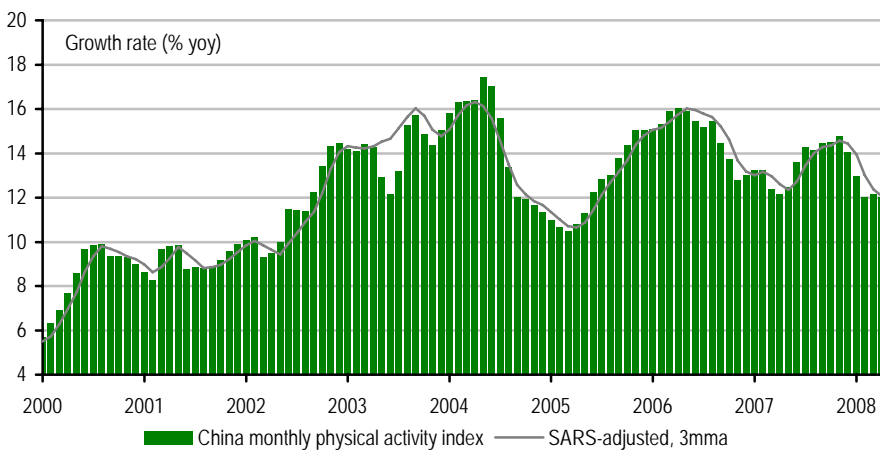
Global industrial production growth has slowed a little in recent months

**US ISM index**



The US ISM index has picked up slightly but its trend is weak

**China physical activity index**

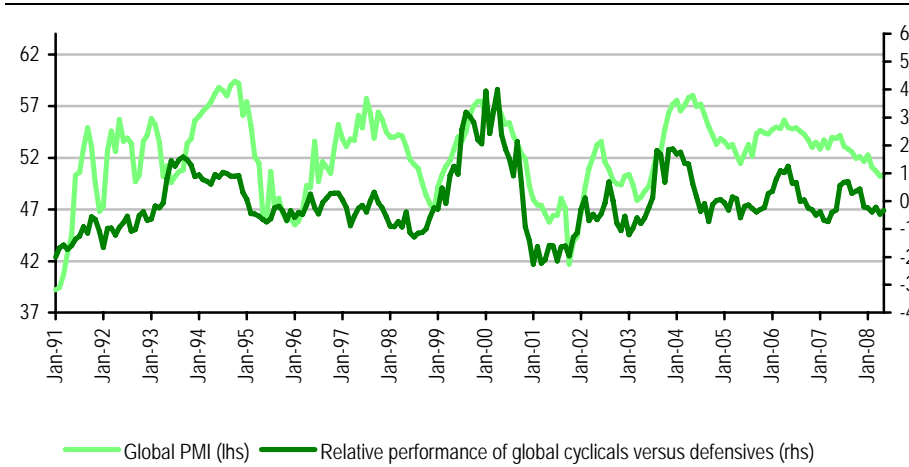


One of our preferred indicators of the Chinese economy suggests that activity is slowing

Source: UBS, Haver, OEF

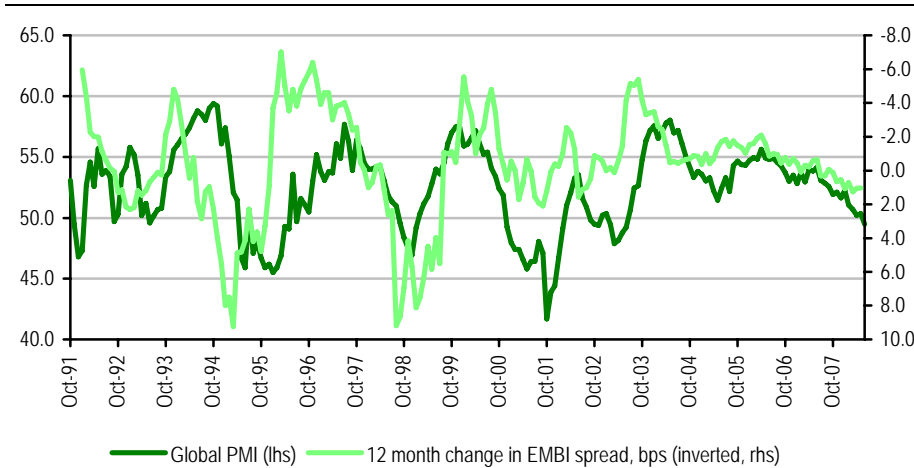
# Markets versus Economics

## Relative performance of cyclicals versus defensives



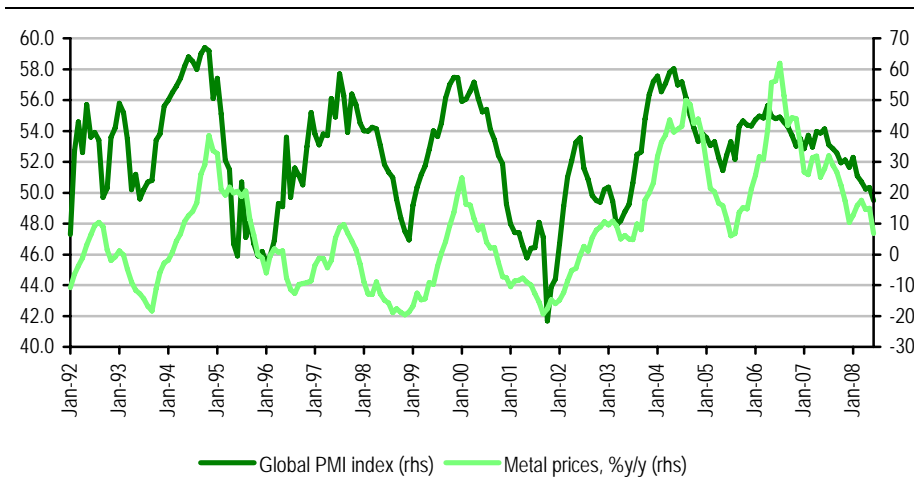
The recent under-performance of cyclical stocks relative to defensive stocks has mirrored the gyrations in the global PMI index

## EMBI spreads



Wider EMBI spreads also look consistent with what has been evolving on the global growth front

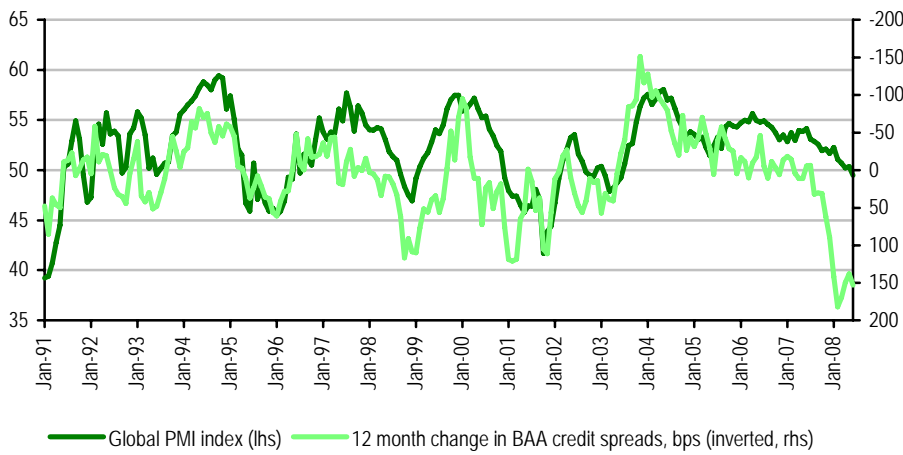
## Metal prices



Metal price inflation has slowed a little from the extremes that characterised the market last year

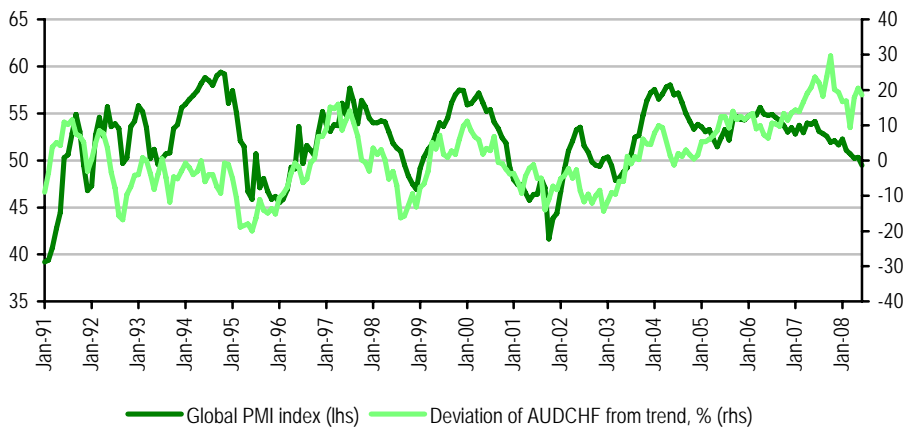
Source: UBS, Haver

**Change in credit spreads**



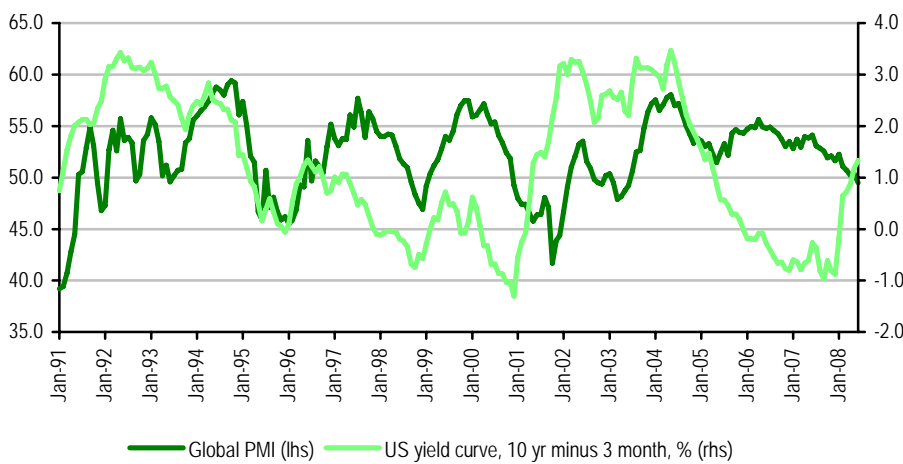
**Wider credit spreads suggest a much weaker growth outcome ahead**

**AUD/CHF**



**The strength of AUD/CHF is a little out of kilter with the drop in the global PMI**

**US yield curve**



**A steeper US yield curve would seem to indicate stronger growth ahead, though we are sceptical**

Source: UBS, Haver

# Asset allocation overview

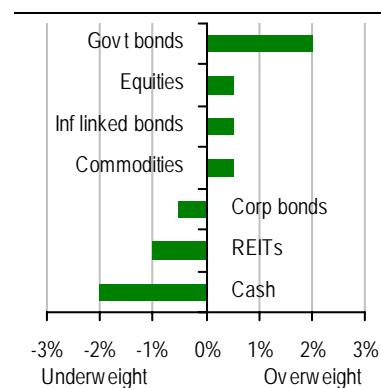
## Overview of global asset allocation recommendations

	Benchmark	Current	Previous*	Load (x)	Prev load (x*)
<b>Equities</b>					
N. America	27.0%	27.5%	27.5%	1.02	1.02
Japan	4.5%	4.5%	4.5%	1.00	1.00
United Kingdom	5.0%	5.0%	5.0%	1.00	1.00
Europe	9.5%	9.5%	9.5%	1.00	1.00
Asia	3.0%	3.0%	3.0%	1.00	1.00
Rest of world	1.0%	1.0%	1.0%	1.00	1.00
<b>Total equities</b>	<b>50.0%</b>	<b>50.5%</b>	<b>50.5%</b>	<b>1.01</b>	<b>1.01</b>
<b>Government</b>					
United States	7.0%	8.0%	7.0%	1.14	1.00
Europe	9.0%	10.0%	9.0%	1.11	1.00
UK	2.0%	2.0%	2.0%	1.00	1.00
Japan	3.5%	3.5%	3.5%	1.00	1.00
Dollar bloc	1.0%	1.0%	2.0%	1.00	2.00
<b>Total gov't bond</b>	<b>22.5%</b>	<b>24.5%</b>	<b>23.5%</b>	<b>1.09</b>	<b>1.04</b>
<b>Inflation indexed</b>					
United States	1.0%	1.5%	1.5%	1.50	1.50
UK	1.0%	1.0%	1.0%	1.00	1.00
Europe	0.5%	0.5%	0.5%	1.00	1.00
<b>Total infl. indexed</b>	<b>2.5%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>1.20</b>	<b>1.20</b>
<b>Corporate bonds</b>					
US inv. grade	6.0%	6.5%	6.5%	1.08	1.08
US high yield	1.5%	1.0%	1.0%	0.67	0.67
Euro inv. grade	2.0%	1.5%	1.5%	0.75	0.75
Sterling inv. grade	0.5%	0.5%	0.5%	1.00	1.00
<b>Total corp. bonds</b>	<b>10.0%</b>	<b>9.5%</b>	<b>9.5%</b>	<b>0.95</b>	<b>0.95</b>
<b>Commodities</b>					
Energy	1.0%	1.0%	1.0%	1.00	1.00
Industrial metals	1.0%	1.0%	1.0%	1.00	1.00
Precious metals	1.0%	1.0%	1.0%	1.00	1.00
Agriculture	1.0%	1.5%	1.5%	1.50	1.50
Livestock	1.0%	1.0%	1.0%	1.00	1.00
<b>Total commodities</b>	<b>5.0%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>1.10</b>	<b>1.10</b>
<b>Listed real estate</b>					
United States	2.5%	2.25%	2.25%	0.90	0.90
Europe	0.5%	0.25%	0.25%	0.50	0.50
UK	0.5%	0.25%	0.25%	0.50	0.50
Japan	0.5%	0.0%	0.0%	0.00	0.00
Asia	1.0%	1.25%	1.25%	1.25	1.25
<b>Total real estate</b>	<b>5.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>0.80</b>	<b>0.80</b>
<b>Cash</b>	<b>5.0%</b>	<b>3.0%</b>	<b>4.0%</b>	<b>0.60</b>	<b>0.80</b>

Source: UBS estimates

Note: Load (x) = current weight / benchmark weight; \* current as of 13 June 2008, previous as of 6 June 2008

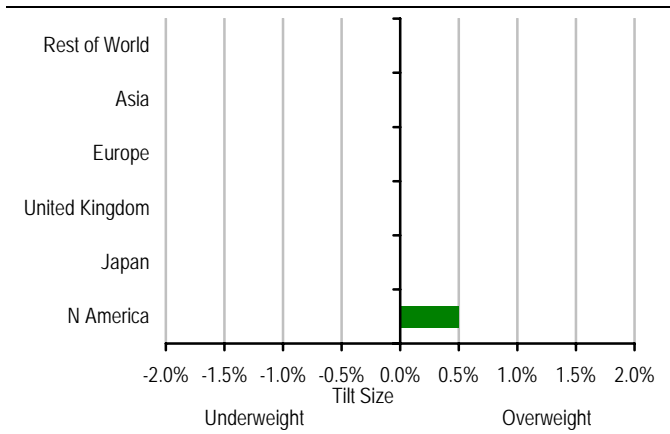
### Chart 1: Asset class tilts



Source: UBS

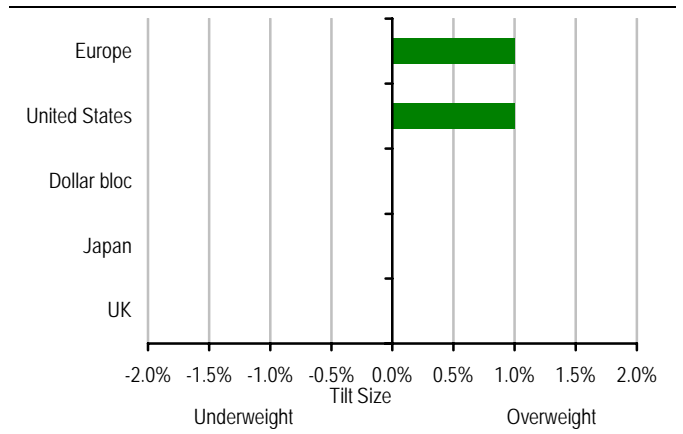
# Asset class tilts by region

## Equities



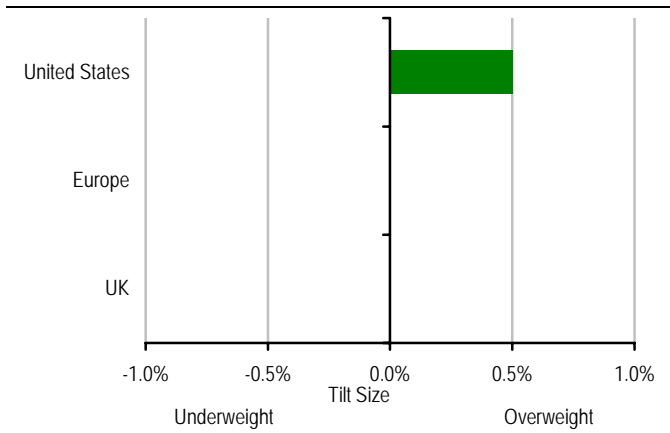
Source: UBS. Note: Calculated as current weight minus benchmark weight

## Government bonds



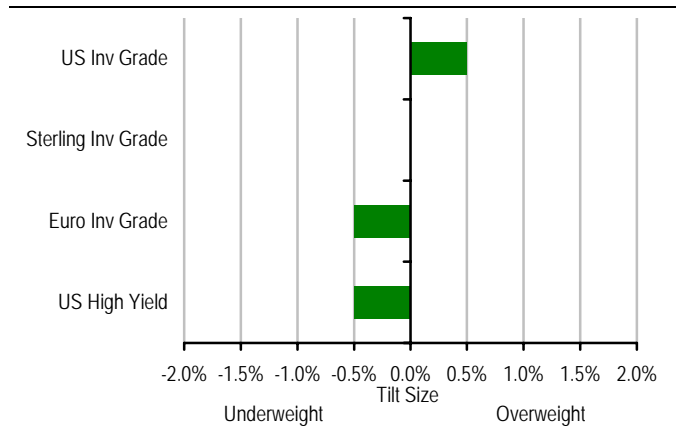
Source: UBS. Note: Calculated as current weight minus benchmark weight

## Inflation-indexed bonds



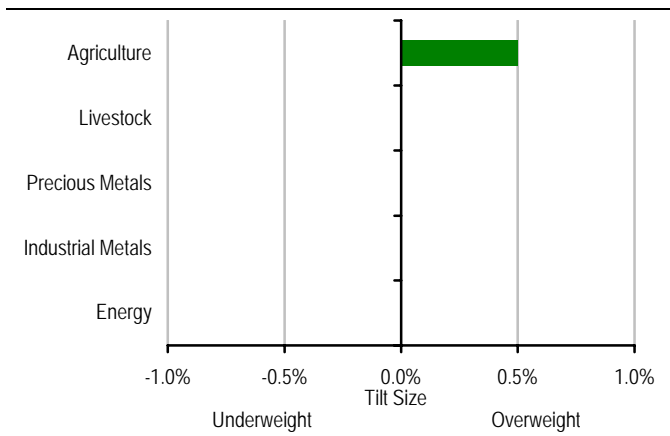
Source: UBS. Note: Calculated as current weight minus benchmark weight

## Corporate bonds



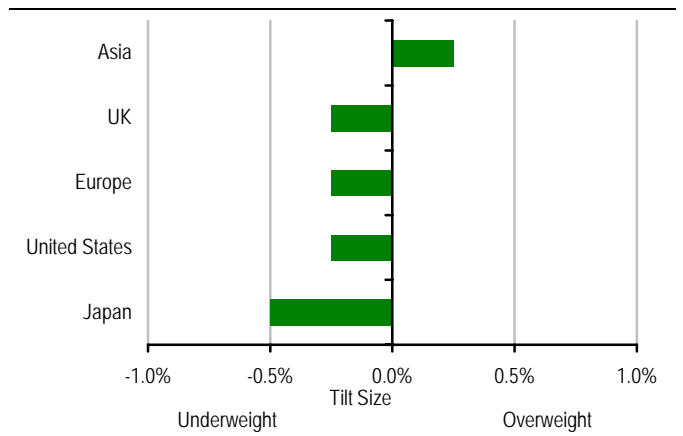
Source: UBS. Note: Calculated as current weight minus benchmark weight

## Commodities



Source: UBS. Note: Calculated as current weight minus benchmark weight

## Listed real estate



Source: UBS. Note: Calculated as current weight minus benchmark weight

# Economic forecasts

**Table 1: GDP growth**

%/y	Weight*	2006	2007F	2008F	2009F
<b>US</b>	0.23	2.9	2.2	1.1	1.8
<b>Canada</b>	0.02	3.1	2.7	1.0	2.3
<b>Japan</b>	0.07	2.4	2.1	1.0	1.4
<b>Western Europe</b>	0.22	2.9	2.7	1.5	1.3
<b>of which:</b>					
<b>Eurozone</b>	0.17	2.9	2.6	1.6	1.1
<b>UK</b>	0.04	2.9	3.1	1.7	1.2
<b>Switzerland</b>	0.01	3.2	3.1	1.6	1.3
<b>Asia **</b>	0.23	8.4	8.6	7.4	7.3
<b>of which:</b>					
<b>China</b>	0.10	10.7	10.9	9.9	9.5
<b>India</b>	0.04	9.6	9.0	7.7	7.9
<b>Latin America</b>	0.08	5.2	5.3	4.3	3.8
<b>of which:</b>					
<b>Brazil</b>	0.03	3.7	5.4	4.8	4.0
<b>Eastern Europe</b>	0.07	6.4	6.3	5.7	5.6
<b>of which:</b>					
<b>Russia</b>	0.03	7.4	8.1	7.0	7.0
<b>Rest of world</b>	0.07	7.2	6.8	6.4	5.6
<b>Advanced economies</b>	0.60	3.0	2.6	1.5	1.7
<b>Developing economies</b>	0.40	7.3	7.3	5.7	5.7
<b>WORLD</b>	1.00	4.9	4.6	3.3	3.4

Source: UBS calculations and estimates

\* Based on purchasing-power-parity-adjusted GDP levels;

\*\* includes Australia and New Zealand.

**Table 2: Inflation**

%/y	Weight*	2006	2007F	2008F	2009F
<b>US</b>	0.23	3.2	2.9	4.3	2.2
<b>Canada</b>	0.02	2.0	2.1	1.9	3.0
<b>Japan</b>	0.07	0.3	0.0	1.4	1.6
<b>Western Europe</b>	0.22	2.2	2.1	3.1	2.3
<b>of which:</b>					
<b>Eurozone</b>	0.17	2.2	2.1	3.6	2.3
<b>UK</b>	0.04	2.3	2.3	3.5	3.2
<b>Switzerland</b>	0.01	1.1	0.7	2.5	1.4
<b>Asia **</b>	0.23	3.6	4.4	6.1	4.7
<b>of which:</b>					
<b>China</b>	0.10	1.5	4.8	6.5	4.5
<b>India</b>	0.04	6.8	6.2	5.5	6.5
<b>Latin America</b>	0.08	4.8	6.0	6.6	6.0
<b>of which:</b>					
<b>Brazil</b>	0.03	3.1	4.5	6.5	4.8
<b>Eastern Europe</b>	0.07	7.4	7.4	10.3	8.2
<b>of which:</b>					
<b>Russia</b>	0.03	9.5	9.0	13.0	10.5

Source: UBS calculations and estimates

\* Based on purchasing-power-parity-adjusted GDP levels;

\*\* includes Australia and New Zealand.

**Table 3: Interest rate forecasts**

%	09-Jul-08	Dec-08	Jun-09	Dec-09
<b>US</b>				
Fed Funds Rate	2.0	1.5	1.5	2.0
10 year yield	3.9	3.9	4.2	4.5
<b>Canada</b>				
Bank of Canada Rate	3.3	3.0	3.0	3.5
10 year yield	3.7	4.1	4.5	4.8
<b>Japan</b>				
Call Rate	0.5	0.5	0.8	0.8
10 year yield	1.6	1.6	1.7	1.8
<b>Germany</b>				
Repo Rate	4.0	4.3	3.8	3.5
10 year yield	4.4	4.4	4.0	4.3
<b>Sweden</b>				
Repo Rate	4.3	4.8	4.3	4.0
10 year yield	4.4	4.5	4.1	4.4
<b>UK</b>				
Repo Rate	5.0	5.0	4.8	4.3
10 year yield	4.9	5.4	5.3	5.1
<b>Switzerland</b>				
3 month rate	2.8	3.0	2.8	2.3
10 year yield	3.2	3.1	2.8	3.1
<b>Australia</b>				
Cash Rate	7.3	7.3	6.8	6.8
10 year yield	6.3	6.0	6.0	6.3
<b>New Zealand</b>				
Cash Rate	8.2	7.3	7.3	7.5
10 year yield	6.3	6.0	6.2	6.3

Source: UBS calculations and estimates

**Table 4: Foreign exchange forecasts**

	09-Jul-08	Dec-08	Jun-09	Dec-09
EUR/USD	1.57	1.40	1.40	1.30
USD/JPY	107.55	100.00	100.00	95.00
EUR/JPY	168.70	140.00	140.00	123.50
GBP/USD	1.97	1.90	1.90	1.86
EUR/GBP	0.80	0.74	0.74	0.70
USD/CHF	1.03	1.14	1.14	1.23
EUR/CHF	1.62	1.60	1.60	1.60
USD/CAD	1.02	1.05	1.05	1.10
AUD/USD	0.95	0.87	0.87	0.82
NZD/USD	0.75	0.70	0.70	0.68
EUR/SEK	9.44	9.35	9.35	9.35
EUR/DKK	7.46	7.46	8.46	7.46
EUR/NOK	8.04	8.00	8.00	8.00

Source: UBS calculations and estimates

# Global Economic Analysts

<b>Larry Hatheway</b>	<b>+44-20-7568 4053</b>	<b>larry.hatheway@ubs.com</b>	<b>Chief Economist &amp; Head of Asset Allocation</b>
<b>Global Economics</b>			
Paul Donovan	+44-20-7568 3372	paul.donovan@ubs.com	Senior Global Economist
Andrew Cates	+44-20-7568 6892	andrew.cates@ubs.com	Senior Global Economist
Kenneth Liew	+612-9324 2852	kenneth.liew@ubs.com	Asset Allocation
Patricia Richardson	+44-20-7568 6891	patricia.richardson@ubs.com	Business Manager
Sophie Constable	+44-20-7568 3105	sophie.constable@ubs.com	Research Assistant
Lucy Coomer	+44 20-7568 3217	lucy.coomer@ubs.com	Administrative Assistant
George Magnus	+44-20-7568 3322	george.magnus@ubs.com	Senior Economic Adviser
Jonathan Anderson	+852-2971 8515	jonathan.anderson@ubs.com	Senior Global Emerging Economist
<b>US</b>			
Maury Harris	+1-203-719 7301	maury.harris@ubs.com	Chief Economist US
Jim O'Sullivan	+1-203-719 8688	james.osullivan@ubs.com	Senior Economist
Samuel Coffin	+1-203-719 1252	samuel.coffin@ubs.com	Economist
Kevin Cummins	+1-203-719 1676	kevin.cummins@ubs.com	Economist
Karen Narang	+1-203-719 6416	karen.narang@ubs.com	Junior Economist
Jessica Moya	+1-212-713 2471	jessy.moya@ubs.com	Administrative Assistant
<b>Canada</b>			
George Vasic	+1-416 3502 232	george.vasic@ubs.com	Senior Economist
<b>Europe</b>			
Stephane Deo	++44-20-7568 8924	stephane.deo@ubs.com	Chief Economist Europe
Amit Kara	+44-20-7568 3522	amit.kara@ubs.com	UK
Sunil Kapadia	+44-20-7567 4090	sunil.kapadia@ubs.com	Iberia, Scandinavia, Euro area
Martin Lueck	+49-69-1369-8280	Martin.lueck@ubs.com	Germany, ECB
Reto Huenerwadel	+41-1-239 6178	reto.huenerwadel@ubs.com	Switzerland
<b>Japan</b>			
Akira Maekawa	+81-3-5208 7344	akira.maekawa@ubs.com	Economist
Takashi Shiono	+81-3-5208 6255	takashi.shiono@ubs.com	Junior Economist
<b>Australia</b>			
Scott Haslem	+61-2-9324 3663	scott.haslem@ubs.com	Chief Economist Australia
George Tharenou	+61-2-9324 2189	george.tharenou@ubs.com	Economist
Adam Carr	+61-2-9324 3849	adam.carr@ubs.com	Senior Economist
<b>Asia (ex Japan)</b>			
Duncan Wooldridge	+852-2971 6046	duncan.wooldridge@ubs.com	Head of Asian Economics
Tao Wang	+86 105 832 8922	wang.tao@ubssecurities.com	China
Phillip Wyatt	+852-2971 8135	philip.wyatt@ubs.com	India
Edward Teather	+65 6836 5965	edward.teather@ubs.com	Malaysia, Philippines, Thailand
Chiou-Yi-Chang	+65 6836 5911	chiou-yi.chang@ubs.com	Indonesia, Singapore
Sean Yokota	+852-2971 8121	sean.yokota@ubs.com	Hong Kong
Amy Tang	+852-2971 8461	amy.tang@ubs.com	Statistician
Isabella Leung	+852-2971 8193	isabella.leung@ubs.com	Administrative Assistant
<b>Latin America</b>			
Javier Kulesz	+5411-4315 2127	javier.kulesz@ubs.com	Latin America
Claudio Ferraz	+5521-3262 9758	claudio.ferraz@ubs.com	Brazil
Eduardo Loyo	+5521-3262 9707	eduardo.loyo@ubs.com	Chief Economist, Latin America
Guillermo Aboumrad	+5255 91 38 2208	Guillermo.aboumrad@ubs.com	Mexico
Gabriel Casillas	+5255 91 38 2202	gabriel.casillas@ubs.com	Mexico
Bernardo Mota	+5521-3262 9660	bernardo.mota@ubs.com	Brazil
Rodrigo Melo	+5521-3262 8883	rodrigo.melo@ubs.com	Brazil
Andre Batista	+5521-3262 9843	andre.batista@ubs.com	Brazil
<b>EMEA</b>			
Reinhard Cluse	+44-20-7568 6722	reinhard.cluse@ubs.com	Senior EMEA Economist
Clemens Grafe	+7-495-648 2351	clemens.grafe@ubs.com	Chief Russia/CIS Economist
Jennifer Aslin	+44-20-7568 6585	jennifer.aslin@ubs.com	Junior Analyst
Marie Antelme	+27-11-322 7325	marie.antelme@ubs.com	South African Economist
Gyorgy Kovacs	+44-20-7568 7563	gyorgy.kovacs@ubs.com	Economist
<b>Currency Strategy</b>			
Mansoor Mohi-Uddin	+44-20-7567 2472	mansoor.mohi-uddin@ubs.com	Head, FX Strategy
Bhanu Baweja	+65-836 5287	bhanu.baweja@ubs.com	FX Strategist
Benedikt Germanier	+41 1 239 5400	benedikt.germanier@ubs.com	FX Strategist
Ashley Davies	+65 6836 8604	ashley.davies@ubs.com	FX Strategist
John Reade	+44-20-7567 6755	john.ream@ubs.com	FX Strategist
<b>Fixed Income Strategy</b>			
Roger Brown	+44-20-7567 4175	roger.brown@ubs.com	Relative Value/Gilt Strategy
Meyrick Chapman	+44-20-7568 8450	meyrick.chapman@ubs.com	Fixed Income Strategist
Chris Lupoli	+44-20-7567 7589	chris.lupoli@ubs.com	Fixed Income Strategist



---

■ **Analyst Certification**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS.

For information on the ways in which UBS manages conflicts and maintains independence of its research product; historical performance information; and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures). Additional information will be made available upon request.

## Global Disclaimer

This report has been prepared by UBS Limited, an affiliate of UBS AG. UBS AG, its subsidiaries, branches and affiliates are referred to herein as UBS. In certain countries, UBS AG is referred to as UBS SA.

This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitute a personal recommendation. It is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, except with respect to information concerning UBS AG, its subsidiaries and affiliates, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. UBS does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses. Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgement. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS as a result of using different assumptions and criteria. Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. UBS is under no obligation to update or keep current the information contained herein. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of UBS Investment Bank as a whole, of which investment banking, sales and trading are a part.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Mortgage and asset-backed securities may involve a high degree of risk and may be highly volatile in response to fluctuations in interest rates and other market conditions. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither UBS nor any of its affiliates, nor any of UBS' or any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC and/or UBS Capital Markets LP) acts as a market maker or liquidity provider (in accordance with the interpretation of these terms in the UK) in the financial instruments of the issuer save that where the activity of liquidity provider is carried out in accordance with the definition given to it by the laws and regulations of any other EU jurisdictions, such information is separately disclosed in this research report.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is communicated by UBS Limited, a subsidiary of UBS AG, to persons who are eligible counterparties or professional clients and is only available to such persons. The information contained herein does not apply to, and should not be relied upon by, retail clients. UBS Limited is authorised and regulated by the Financial Services Authority (FSA). UBS research complies with all the FSA requirements and laws concerning disclosures and these are indicated on the research where applicable. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France SA. UBS Securities France S.A. is regulated by the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this report, the report is also deemed to have been prepared by UBS Securities France S.A. **Germany:** Prepared by UBS Limited and distributed by UBS Limited and UBS Deutschland AG. UBS Deutschland AG is regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). **Spain:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities España SV, SA. UBS Securities España SV, SA is regulated by the Comisión Nacional del Mercado de Valores (CNMV). **Turkey:** Prepared by UBS Menkul Degerler AS on behalf of and distributed by UBS Limited. **Russia:** Prepared and distributed by UBS Securities C.J.S.C. **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Italia Sim S.p.A. UBS Italia Sim S.p.A. is regulated by the Bank of Italy and by the Commissione Nazionale per le Società e la Borsa (CONSOB). Where an analyst of UBS Italia Sim S.p.A. has contributed to this report, the report is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** UBS South Africa (Pty) Limited (Registration No. 1995/011140/07) is a member of the JSE Limited, the South African Futures Exchange and the Bond Exchange of South Africa. UBS South Africa (Pty) Limited is an authorised Financial Services Provider. Details of its postal and physical address and a list of its directors are available on request or may be accessed at <http://www.ubs.co.za>. **United States:** Distributed to US persons by either UBS Securities LLC or by UBS Financial Services Inc., subsidiaries of UBS AG; or by a group, subsidiary or affiliate of UBS AG that is not registered as a US broker-dealer (a 'non-US affiliate'), to major US institutional investors only. UBS Securities LLC or UBS Financial Services Inc. accepts responsibility for the content of a report prepared by another non-US affiliate when distributed to US persons by UBS Securities LLC or UBS Financial Services Inc. All transactions by a US person in the securities mentioned in this report must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. **Canada:** Distributed by UBS Securities Canada Inc., a subsidiary of UBS AG and a member of the principal Canadian stock exchanges & CIPF. A statement of its financial condition and a list of its directors and senior officers will be provided upon request. **Hong Kong:** Distributed by UBS Securities Asia Limited. **Singapore:** Distributed by UBS Securities Pte. Ltd or UBS AG, Singapore Branch. **Japan:** Distributed by UBS Securities Japan Ltd to institutional investors only. **Australia:** Distributed by UBS AG (Holder of Australian Financial Services Licence No. 231087) and UBS Securities Australia Ltd (Holder of Australian Financial Services Licence No. 231098) only to 'Wholesale' clients as defined by s761G of the Corporations Act 2001. **New Zealand:** Distributed by UBS New Zealand Ltd. **China:** Distributed by UBS Securities Co. Limited.

The disclosures contained in research reports produced by UBS Limited shall be governed by and construed in accordance with English law.

UBS specifically prohibits the redistribution of this material in whole or in part without the written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. © UBS 2008. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

