

# Global Rates Strategy

## Balanced FOMC could mean a steeper curve

### Neutral hike and a balanced statement will be a dovish outcome for the market

As highlighted in our economics team's preview ([FOMC: Ready for a raise?](#)), we look for the FOMC to raise rates by 25 basis points. The market is priced closed to 98% probability of a December hike (**Figure 1**). We expect a "balanced" risk assessment from the FOMC in the statement and from Fed Chair Yellen during the post statement press conference. Given the distribution of dots and move in breakevens and asset prices, there is risk that some dots move higher. The longer-run forecast of 2.875% could move up by 12.5bp if just one forecast shifts between a 2.75% rate and a 3.00% rate. We need to see two forecasters move their dots higher by 25bp in 2017/18/19 for there to be a 25bp higher median. This could lead to a knee-jerk upside move to rates. However, 5-year yields have sold off by about 70bp recently, which seems high. Beyond the dot plot risk, we believe the statement is much more likely to be balanced.

### Reason for balanced statement: Still low and uncertain inflation outlook

As has been the case over the past few years, the US labour market has been the bright spot for the Fed. However, the key concern for the Fed is inflation and the risks to the economy. On the former, the Fed's measure of 5y5y breakevens has risen close to two percent but this is in CPI terms (**See Figure 2**). The Fed likely wants this measure to be close to 240bp. Our analysis (**See Figure 3**) of FOMC statements over the past three years indicates that the Fed became concerned about market-based inflation compensation when breakevens fell below 220bp. Also, about 25bp of the 50bp rise in breakevens since late September has happened because of the market's opinion of what the President-elect's policy will be. This makes the stability of market-based inflation expectations much more speculative. As such the Fed is likely to acknowledge the pick-up in inflation expectations but will continue to characterize them as low.

### Low rates and global uncertainty should keep Fed cautious

In the past, we highlighted that long-run rates have declined for multitude of reasons including aging demographics, low productivity and stimulative policies outside of the US (See [Big Macro 01](#)). And despite low rates and a \$4.5trn Fed balance sheet, the Fed has missed on its inflation target for eight years in a row. As highlighted by [Fed Governor Powell](#), central banks are not well positioned to counteract a renewed bout of weakness given low rates. As such the Fed needs more certainty on growth outlook than previously. On the fiscal outlook, Fed Chair Yellen and regional Fed Presidents Dudley, Bullard and Evans suggest that it is too early to take into account fiscal policy.

### EUR/USD has likely bottomed and curves are likely to steepen

In [our 2017 Top Macro Trades](#), we argued that globally the trade-off between growth and inflation is attractive and generally in favor of carry trades. Such is the case with the upcoming FOMC statement. Notably, the last two US core PCE prints have been 0.1% m/m, recent wage data was soft and breakevens are likely to be seen as low. As can be seen in **Figure 1**, the market is now much closer to the Fed's modal path. And our analysis indicates the Fed is likely to be more balanced, which makes receiving fixed rates more attractive. With the fiscal spending uncertainty looming, outright receiving is risky as long-end term premium may remain elevated (See [2017 outlook](#)). Therefore, we think 5s30s nominal curve steepeners is a good way to position post FOMC. The trade has similar exposure as receiving the belly of [2s7s30s nominal fly](#), which we have liked. The steepening theme is quite consistent with [our view in Europe](#) as well. On an outright basis, we recommend receiving 10-year UST rates for next three months if 10s move significantly above 250bp. Given our bullish outlook for USTs, we do not expect USD to rally versus EUR. A key risk to our outright bullish UST view is that a fiscal spending proposal with a high multiplier takes shape sooner than expected.

## Interest Rates

Global  
Interest Rate Strategy

### Chirag Mirani

Strategist  
chirag.mirani@ubs.com  
+1-203-719 7514

### Norbert Aul

Strategist  
norbert.aul@ubs.com  
+44-20-7568 6822

### Daniel Waldman

Strategist  
daniel.waldman@ubs.com  
+1-203-719 4281

### Themos Fiotakis

Strategist  
themos.fiotakis@ubs.com  
+44-20-7567 7215

### Jeff Greenberg

Strategist  
jeff.greenberg@ubs.com  
+1-203-719 1751

### Haojiang Zhao

Associate Strategist  
haojiang.zhao@ubs.com  
+44-20-7568 5547

### Yianos Kontopoulos

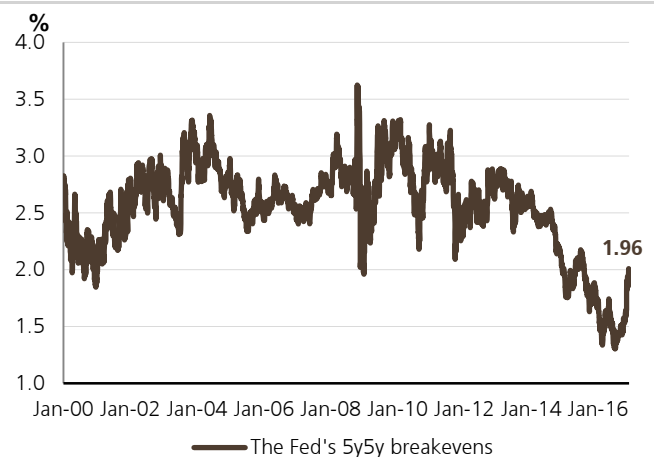
Strategist  
yianos.kontopoulos@ubs.com  
+44-20-7568 8924

**Figure 1: Market based probability of a rate hike**

| Year      | # of hikes priced in by the market | The Fed's median hike expectations as of September, 2016 | Check |
|-----------|------------------------------------|--|-------|
| 2016      | 0.98                               | 1  | 62    |
| 2017      | 1.8                                | 2  | 112   |
| 2018      | 1.8                                | 3  | 187   |
| 2019      | 1.1                                | 3  | 262   |
| 2020-2026 | 4.9                                | 1  | 287   |

As of December 12, 2016  
Source: UBS calculations, Bloomberg

**Figure 2: Market based breakevens**



As of December 6, 2016  
Source: UBS, Bloomberg, University of Michigan, NY Fed

**Figure 3: Level as of December 6, 2016 is 196bp. The FOMC became concerned about breakevens when they fell below 220bp.**

| Date       | Fed 5-year BEI | FOMC statement excerpts on inflation expectations   |
|------------|----------------|---|
| 29/01/2014 | 2.48           | Longer-term inflation expectations have remained stable.                                      |
| 19/03/2014 | 2.39           | Longer-term inflation expectations have remained stable.                                      |
| 30/04/2014 | 2.46           | Longer-term inflation expectations have remained stable.                                      |
| 18/06/2014 | 2.41           | Longer-term inflation expectations have remained stable.                                      |
| 30/07/2014 | 2.5            | Longer-term inflation expectations have remained stable.                                      |
| 17/09/2014 | 2.38           | Longer-term inflation expectations have remained stable.                                      |
| 29/10/2014 | 2.2            | Market-based measures of inflation compensation have declined somewhat;                       |
| 17/12/2014 | 2.01           | Market-based measures of inflation compensation have declined somewhat further;               |
| 28/01/2015 | 1.78           | Market-based measures of inflation compensation have declined substantially in recent months; |
| 18/03/2015 | 1.88           | Market-based measures of inflation compensation remain low;                                   |
| 29/04/2015 | 2.03           | Market-based measures of inflation compensation remain low;                                   |
| 17/06/2015 | 2.1            | Market-based measures of inflation compensation remain low;                                   |
| 29/07/2015 | 2.05           | Market-based measures of inflation compensation remain low;                                   |
| 17/09/2015 | 1.84           | Market-based measures of inflation compensation moved lower;                                  |
| 28/10/2015 | 1.72           | Market-based measures of inflation compensation moved slightly lower;                         |
| 16/12/2015 | 1.72           | Market-based measures of inflation compensation remain low;                                   |
| 27/01/2016 | 1.53           | Market-based measures of inflation compensation declined further;                             |
| 16/03/2016 | 1.54           | Market-based measures of inflation compensation remain low;                                   |
| 27/04/2016 | 1.66           | Market-based measures of inflation compensation remain low;                                   |
| 15/06/2016 | 1.39           | Market-based measures of inflation compensation declined;                                     |
| 27/07/2016 | 1.39           | Market-based measures of inflation compensation remain low;                                   |
| 21/09/2016 | 1.44           | Market-based measures of inflation compensation remain low;                                   |
| 02/11/2016 | 1.61           | Market-based measures of inflation compensation have moved up but remain low;                 |

Source: UBS Investment Research, Federal Reserve

## Valuation Method and Risk Statement

Risks include, but are not limited to, market risk, credit risk, interest rate risk, liquidity risk, inflation risk, and exchange rate risk. Furthermore, valuations may be adversely affected during times of high market volatility and thin liquidity.

Past performance is not indicative of future returns. Investing in securities globally poses risks. Valuations can be impacted by changes in the macroeconomic landscape as well as financial market stability.

The securities identified in this note reflect strategists' views regarding a theme's potential positive or negative impact on these securities. Whether a security is potentially positively or negatively impacted by the theme is based upon a combination of: (a) the assumption that the theme occurs, (b) the involved UBS analysts, economists and/or strategists' perspective, and (c) UBS' proprietary models. UBS Research's current rating ascribed to that security may be based upon a broader range of factors including, without limitation, an assessment as to the likelihood of such theme occurring. Nothing in this document constitutes a representation or statement that the theme will occur. The theme may or may not occur in a manner differently than described. The securities identified may react differently to the theme than described. In addition, security prices are determined by a wide range of events and influences, so the potential impact of an isolated theme should be considered in the broader market framework when making an investment decision. Whether a security is potentially positively or negatively impacted by a theme does not constitute a recommendation to pursue any investment strategy in relation to any securities or other financial instruments.

## Required Disclosures

This report has been prepared by UBS Securities LLC, 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). The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. UBS Securities Co. Limited is licensed to conduct securities investment consultancy businesses by the China Securities Regulatory Commission. UBS acts or may act as principal in the debt securities (or in related derivatives) that may be the subject of this report. This recommendation was finalized on: 13 December 2016 11:42 PM GMT.

**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 were prepared in an independent manner, including with respect to UBS, 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.

## Company Disclosures

---

### Issuer Name

---

United States<sup>7, 22</sup>

---

7. Within the past 12 months, UBS Securities LLC and/or its affiliates have received compensation for products and services other than investment banking services from this company/entity.
22. UBS AG, its affiliates or subsidiaries held other significant financial interests in this company/entity as of last month's end (or the prior month's end if this report is dated less than 10 working days after the most recent month's end).

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact UBS Securities LLC, 1285 Avenue of Americas, New York, NY 10019, USA, Attention: Investment Research.

## Global Disclaimer

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

Global Research is provided to our clients through UBS Neo and, in certain instances, UBS.com (each a "System"). It may also be made available through third party vendors and distributed by UBS and/or third parties via e-mail or alternative electronic means. The level and types of services provided by Global Research to a client may vary depending upon various factors such as a client's individual preferences as to the frequency and manner of receiving communications, a client's risk profile and investment focus and perspective (e.g., market wide, sector specific, long-term, short-term, etc.), the size and scope of the overall client relationship with UBS and legal and regulatory constraints.

All Global Research is available on UBS Neo. Please contact your UBS sales representative if you wish to discuss your access to UBS Neo.

When you receive Global Research through a System, your access and/or use of such Global Research is subject to this Global Research Disclaimer and to the terms of use governing the applicable System.

When you receive Global Research via a third party vendor, e-mail or other electronic means, your use shall be subject to this Global Research Disclaimer and to UBS's Terms of Use/Disclaimer (<http://www.ubs.com/global/en/legalinfo2/disclaimer.html>). By accessing and/or using Global Research in this manner, you are indicating that you have read and agree to be bound by our Terms of Use/Disclaimer. In addition, you consent to UBS processing your personal data and using cookies in accordance with our Privacy Statement (<http://www.ubs.com/global/en/legalinfo2/privacy.html>) and cookie notice (<http://www.ubs.com/global/en/homepage/cookies/cookie-management.html>).

**If you receive Global Research, whether through a System or by any other means, you agree that you shall not copy, revise, amend, create a derivative work, transfer to any third party, or in any way commercially exploit any UBS research provided via Global Research or otherwise, and that you shall not extract data from any research or estimates provided to you via Global Research or otherwise, without the prior written consent of UBS.**

This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject UBS to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ("the Information"), except with respect to Information concerning UBS. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. UBS does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of UBS. Any statements contained in this report attributed to a third party represent UBS's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in the document 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 or other market conditions. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in the document. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full (or any) amount invested. Past performance is not necessarily a guide to future performance. Neither UBS nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect UBS's internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions by UBS or any other source may yield substantially different results.

This document and the Information are produced by UBS as part of its research function and are provided to you solely for general background information. UBS has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. In no circumstances may this document or any of the Information be used for any of the following purposes:

- (i) valuation or accounting purposes;
- (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or
- (iii) to measure the performance of any financial instrument.

By receiving this document and the Information you will be deemed to represent and warrant to UBS that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information.

UBS has policies and procedures, which include, without limitation, independence policies and permanent information barriers, that are intended, and upon which UBS relies, to manage potential conflicts of interest and control the flow of information within divisions of UBS and among its subsidiaries, branches and affiliates. For further information on the ways in which UBS manages conflicts and maintains independence of its research products, historical performance information and certain additional disclosures concerning UBS research recommendations, please visit [www.ubs.com/disclosures](http://www.ubs.com/disclosures).

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management, which will also have sole discretion on the timing and frequency of any published research product. The analysis contained in this document is based on numerous assumptions. All material information in relation to published research reports, such as valuation methodology, risk statements, underlying assumptions (including sensitivity analysis of those assumptions), ratings history etc. as required by the Market Abuse Regulation, can be found on NEO. Different assumptions could result in materially different results.

The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information. 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 document 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, and UBS's subsidiaries, branches and affiliates as a whole.

For financial instruments admitted to trading on an EU regulated market: UBS AG, its affiliates or subsidiaries (excluding UBS Securities LLC) 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 document. For financial instruments admitted to trading on a non-EU regulated market: UBS may act as a market maker save that where this activity is carried out in the US in accordance with the definition given to it by the relevant laws and regulations, such activity will be specifically disclosed in this document. UBS may have issued a warrant the value of which is based on one or more of the financial instruments referred to in the document. UBS and its affiliates and employees may have long or short positions, trade as principal and buy and sell in instruments or derivatives identified herein; such transactions or positions may be inconsistent with the opinions expressed in this document.

**United Kingdom and the rest of Europe:** Except as otherwise specified herein, this material is distributed by UBS Limited to persons who are eligible counterparties or professional clients. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. **France:** Prepared by UBS Limited and distributed by UBS Limited and UBS Securities France S.A. UBS Securities France S.A. is regulated by the ACPR (Autorité de Contrôle Prudentiel et de Résolution) and the Autorité des Marchés Financiers (AMF). Where an analyst of UBS Securities France S.A. has contributed to this document, the document 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 Europe SE. UBS Europe SE 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:** Distributed

by UBS Limited. No information in this document is provided for the purpose of offering, marketing and sale by any means of any capital market instruments and services in the Republic of Turkey. Therefore, this document may not be considered as an offer made or to be made to residents of the Republic of Turkey. UBS AG is not licensed by the Turkish Capital Market Board under the provisions of the Capital Market Law (Law No. 6362). Accordingly, neither this document nor any other offering material related to the instruments/services may be utilized in connection with providing any capital market services to persons within the Republic of Turkey without the prior approval of the Capital Market Board. However, according to article 15 (d) (ii) of the Decree No. 32, there is no restriction on the purchase or sale of the securities abroad by residents of the Republic of Turkey. **Poland:** Distributed by UBS Limited (spolka z ograniczona odpowiedzialnoscia) Oddzial w Polsce regulated by the Polish Financial Supervision Authority. Where an analyst of UBS Limited (spolka z ograniczona odpowiedzialnoscia) Oddzial w Polsce has contributed to this document, the document is also deemed to have been prepared by UBS Limited (spolka z ograniczona odpowiedzialnoscia) Oddzial w Polsce. **Russia:** Prepared and distributed by UBS Bank (OOO). **Switzerland:** Distributed by UBS AG to persons who are institutional investors only. UBS AG is regulated by the Swiss Financial Market Supervisory Authority (FINMA). **Italy:** Prepared by UBS Limited and distributed by UBS Limited and UBS Limited, Italy Branch. Where an analyst of UBS Limited, Italy Branch has contributed to this document, the document is also deemed to have been prepared by UBS Limited, Italy Branch. **South Africa:** Distributed by UBS South Africa (Pty) Limited (Registration No. 1995/011140/07), an authorised user of the JSE and an authorised Financial Services Provider (FSP 7328). **Israel:** This material is distributed by UBS Limited. UBS Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. UBS Securities Israel Ltd is a licensed Investment Marketer that is supervised by the Israel Securities Authority (ISA). UBS Limited and its affiliates incorporated outside Israel are not licensed under the Israeli Advisory Law. UBS Limited is not covered by insurance as required from a licensee under the Israeli Advisory Law. UBS may engage among others in issuance of Financial Assets or in distribution of Financial Assets of other issuers for fees or other benefits. UBS Limited and its affiliates may prefer various Financial Assets to which they have or may have Affiliation (as such term is defined under the Israeli Advisory Law). Nothing in this Material should be considered as investment advice under the Israeli Advisory Law. This Material is being issued only to and/or is directed only at persons who are Eligible Clients within the meaning of the Israeli Advisory Law, and this material must not be relied on or acted upon by any other persons. **Saudi Arabia:** This document has been issued by UBS AG (and/or any of its subsidiaries, branches or affiliates), a public company limited by shares, incorporated in Switzerland with its registered offices at Aeschenvorstadt 1, CH-4051 Basel and Bahnhofstrasse 45, CH-8001 Zurich. This publication has been approved by UBS Saudi Arabia (a subsidiary of UBS AG), a Saudi owned joint stock company incorporated in the Kingdom of Saudi Arabia under commercial register number 1010257812 having its registered office at Tatweer Towers, P.O. Box 75724, Riyadh 11588, Kingdom of Saudi Arabia. UBS Saudi Arabia is authorized and regulated by the Capital Market Authority to conduct securities business under license number 08113-37. **Dubai:** The information distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **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 document 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 document must be effected through UBS Securities LLC or UBS Financial Services Inc., and not through a non-US affiliate. UBS Securities LLC is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule"), and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule. **Canada:** Distributed by UBS Securities Canada Inc., a registered investment dealer in Canada and a Member-Canadian Investor Protection Fund, or by another affiliate of UBS AG that is registered to conduct business in Canada or is otherwise exempt from registration. **Mexico:** This report has been distributed and prepared by UBS Casa de Bolsa, S.A. de C.V., UBS Grupo Financiero, an entity that is part of UBS Grupo Financiero, S.A. de C.V. and is an affiliate of UBS AG. This document is intended for distribution to institutional or sophisticated investors only. Research reports only reflect the views of the analysts responsible for the reports. Analysts do not receive any compensation from persons or entities different from UBS Casa de Bolsa, S.A. de C.V., UBS Grupo Financiero, or different from entities belonging to the same financial group or business group of such. For Spanish translations of applicable disclosures, please see [www.ubs.com/disclosures](http://www.ubs.com/disclosures). **Brazil:** Except as otherwise specified herein, this material is prepared by UBS Brasil CCTVM S.A. to persons who are eligible investors residing in Brazil, which are considered to be: (i) financial institutions, (ii) insurance firms and investment capital companies, (iii) supplementary pension entities, (iv) entities that hold financial investments higher than R\$300,000.00 and that confirm the status of qualified investors in written, (v) investment funds, (vi) securities portfolio managers and securities consultants duly authorized by Comissão de Valores Mobiliários (CVM), regarding their own investments, and (vii) social security systems created by the Federal Government, States, and Municipalities. **Hong Kong:** Distributed by UBS Securities Asia Limited and/or UBS AG, Hong Kong Branch. **Singapore:** Distributed by UBS Securities Pte. Ltd. [MCI (P) 007/09/2016 and Co. Reg. No.: 198500648C] or UBS AG, Singapore Branch. Please contact UBS Securities Pte. Ltd., an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110); or UBS AG, Singapore Branch, an exempt financial adviser under the Singapore Financial Advisers Act (Cap. 110) and a wholesale bank licensed under the Singapore Banking Act (Cap. 19) regulated by the Monetary Authority of Singapore, in respect of any matters arising from, or in connection with, the analysis or document. The recipients of this document represent and warrant that they are accredited and institutional investors as defined in the Securities and Futures Act (Cap. 289). **Japan:** Distributed by UBS Securities Japan Co., Ltd. to professional investors (except as otherwise permitted). Where this document has been prepared by UBS Securities Japan Co., Ltd., UBS Securities Japan Co., Ltd. is the author, publisher and distributor of the document. Distributed by UBS AG, Tokyo Branch to Professional Investors (except as otherwise permitted) in relation to foreign exchange and other banking businesses when relevant. **Australia:** Clients of UBS AG: Distributed by UBS AG (Holder of Australian Financial Services License No. 231087). Clients of UBS Securities Australia Ltd: Distributed by UBS Securities Australia Ltd (Holder of Australian Financial Services License No. 231098). This document contains general information and/or general advice only and does not constitute personal financial product advice. As such, the information in this document has been prepared without taking into account any investor's objectives, financial situation or needs, and investors should, before acting on the information, consider the appropriateness of the information, having regard to their objectives, financial situation and needs. If the information contained in this document relates to the acquisition, or potential acquisition of a particular financial product by a 'Retail' client as defined by section 761G of the Corporations Act 2001 where a Product Disclosure Statement would be required, the retail client should obtain and consider the Product Disclosure Statement relating to the product before making any decision about whether to acquire the product. The UBS Securities Australia Limited Financial Services Guide is available at: [www.ubs.com/ecs-research-fsg](http://www.ubs.com/ecs-research-fsg). **New Zealand:** Distributed by UBS New Zealand Ltd. UBS New Zealand Ltd is not a registered bank in New Zealand. The information and recommendations in this publication are provided for general information purposes only. To the extent that any such information or recommendations constitute financial advice, they do not take into account any person's particular financial situation or goals. We recommend that recipients seek advice specific to their circumstances from their financial advisor. **Korea:** Distributed in Korea by UBS Securities Pte. Ltd., Seoul Branch. This document may have been edited or contributed to from time to time by affiliates of UBS Securities Pte. Ltd., Seoul Branch. **Malaysia:** This material is authorized to be distributed in Malaysia by UBS Securities Malaysia Sdn. Bhd (Capital Markets Services License No.: CMSL/A0063/2007). This material is intended for professional/institutional clients only and not for distribution to any retail clients. **India:** Distributed by UBS Securities India Private Ltd. (Corporate Identity Number U67120MH1996PTC097299) 2/F, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai (India) 400051. Phone: +912261556000. It provides brokerage services bearing SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, NSE (Currency Derivatives Segment) INE230951431, BSE (Capital Market Segment) INB010951437; merchant banking services bearing SEBI Registration Number: INM000010809 and Research Analyst services bearing SEBI Registration Number: INH000001204. UBS AG, its affiliates or subsidiaries may have debt holdings or positions in the subject Indian company/companies. Within the past 12 months, UBS AG, its affiliates or subsidiaries may have received compensation for non-investment banking securities-related services and/or non-securities services from the subject Indian company/companies. The subject company/companies may have been a client/clients of UBS AG, its affiliates or subsidiaries during the 12 months preceding the date of distribution of the research report with respect to investment banking and/or non-investment banking securities-related services and/or non-securities services. With regard to information on associates, please refer to the Annual Report at: [http://www.ubs.com/global/en/about\\_ubs/investor\\_relations/annualreporting.html](http://www.ubs.com/global/en/about_ubs/investor_relations/annualreporting.html)

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

UBS specifically prohibits the redistribution of this document 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. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. © UBS 2016. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

