

Credit Strategy: Global Morning Walk

US: IG Flows: A mirage, yet a trend?;

EU: All that glistens IS credit

Credit Strategy

Global

Matthew Mish, CFA

Strategist

matthew.mish@ubs.com

+1-203-719 1242

Stephen Caprio

Associate Strategist

stephen.caprio@ubs.com

+1-203-719 6032

US: IG Flows: A mirage, yet a trend?

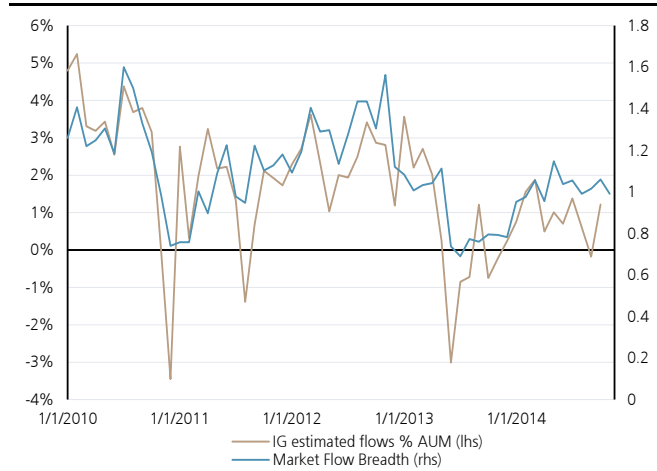
There has been much noise recently about sharp outflows in the IG market over the last two months and questions asked about the trend in IG flows heading into 2015. We will address these in order. Regarding the reported Lipper IG outflows of \$28BN in September and October, nearly all of this can be traced to outflows in one fund. We believe this paints a mirage over what is actually taking place regarding new investor flows. This fund invests in multiple asset classes, and we estimate that only roughly 8% of the fund is actually invested in IG bonds. Thus, when correcting for this, we believe the real picture of new investor money into IG is more nuanced; IG flows were essentially flat in September and moved to positive in October amidst the market turmoil. This story is consistent with another other flow metric that we track. The current level of market flow breadth (defined as the ratio of the # of funds with inflows to the # of funds with outflows) strongly tracks the rate of IG flows historically, and is far more consistent with new money flowing into the market than sharp outflows (Figure 1).

However, stepping back in time, the recent rate of inflows into IG looks far from impressive. Fund Flows as a % of AUM are currently below their median level since 2000 (Figure 2). There appear to be two general scenarios where IG inflows are subpar: 1) crisis episodes/recessions & 2) periods of low IG yields. For the foreseeable future, we worry about the latter. The predicament of low yields, robust primary market issuance, and lower than normal flows could potentially arrest or limit spread tightening going forward.

While trailing 2014 performance (on a total return basis) will provide a boost to flows in the beginning of 2015, we believe that the prospect of higher rates will keep investors from diving head-first back into this market. If Treasury yields rise as per our UBS forecasts (3.1% by mid-2015, 3.5% by Dec 2015), then IG total returns will clearly suffer. But there is an additional catch. If spreads widen, will falling Treasury yields provide the buffer that they have in the past? As we discussed¹, this dynamic may be out of gas. Recent market action has somewhat corroborated this trend, as September & November have seen spread widening in conjunction with rising treasury yields, though admittedly October's near market correction did bring the relationship back in-line with recent norms (Figure 3). The net result has been negative total returns for IG of -0.75% since September. With the Fed stepping away from QE and the current level of Treasury yields already pricing in historically weak nominal growth, it is not a given that Treasuries will provide the buffer that they did in 2014 to IG total returns, lending less support for future flows if this scenario pans out. Bottom line, while IG fundamentals are decent and 2014 performance was strong; the overall technical picture has us reiterate our neutral stance in the space.

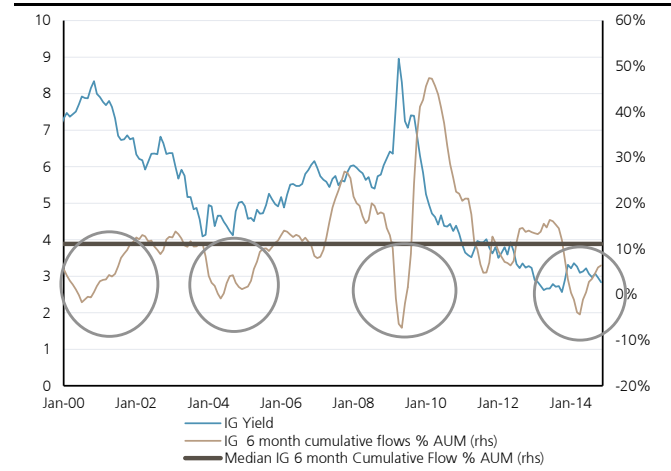
¹ ["Risk-Off hits US IG: Where do we stand?";](#) S.Caprio, M.Mish, Oct 2014

Figure 1: IG Fund Flows vs. Market Breadth



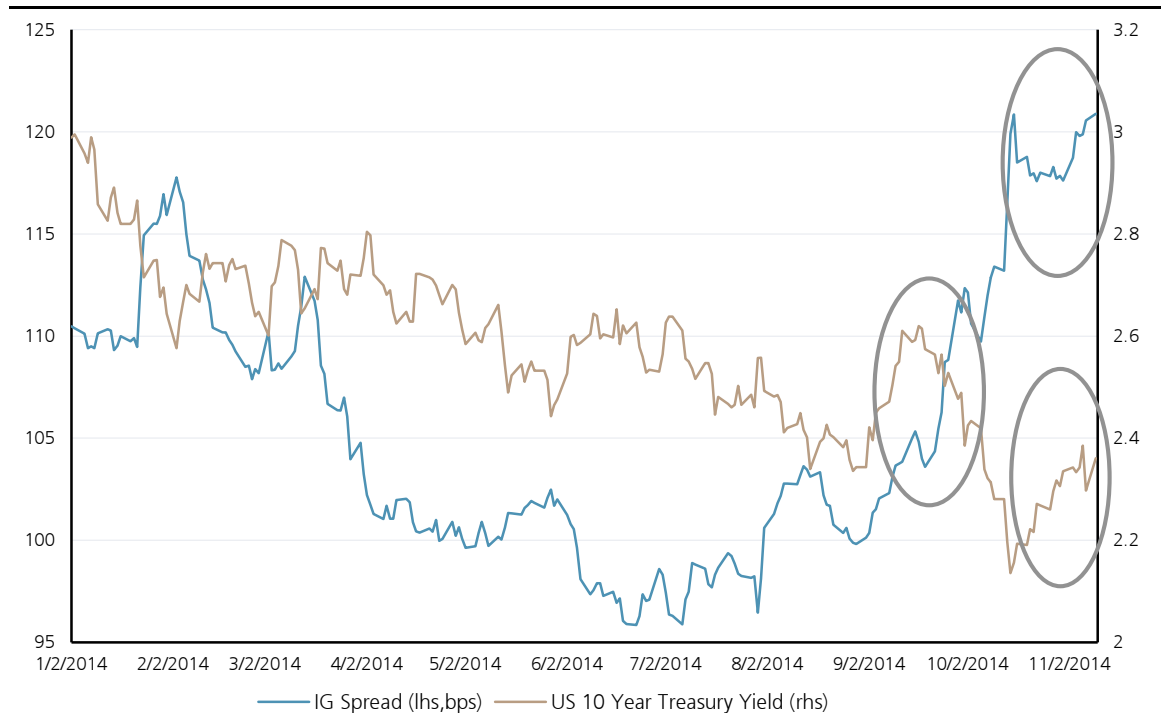
Source: UBS, Lipper

Figure 2: IG Fund Flows vs. IG Yields



Source: UBS, Lipper, Yieldbook

Figure 3: IG Spreads vs. Treasury Yields



Source: UBS, Yieldbook, Bloomberg

US Daily Market Pulse

Primary Market Recap

US IG and HY issuance stood at \$11.95 bn and \$3.12 bn respectively. LL issuance stood at \$4.6bn. HY pipeline on LCD is estimated at \$35bn, of which \$3.2bn is expected to be priced this week. LL pipeline on LCD is forecasted at \$19bn, of which \$1.6bn is expected to be priced today.

Secondary Market Recap

Credit indices closed flat to marginally wider (US BIG +1bp, US HYCP +1bp, CDX IG unch, CDX HY unch, LL unch). TRACE data showed \$693mn (1.1 Sell/Buy ratio) of client selling in IG and \$48mn (0.97 S/B ratio) of client buying in HY.

In IG, all sectors widened with Materials (+1.8bps) leading the underperformers. Communications (+4.3bps) widened the most while Consumer Disc. (-2.2bps) tightened the most in HY.

For IG, client buying was most prevalent in the Technology sector (0.96 S/B ratio) and in 3 -7 yr (0.96 S/B ratio) maturity bucket. Client selling was most concentrated in the Materials sector (1.5 S/B ratio), and in the long end of the curve (1.5 S/B ratio).

For HY, client buying was most prevalent in the Consumer Discretionary sector (0.9 S/B ratio), and in Ba1-Ba3 (0.9 S/B ratio) rated bonds. Client selling was most concentrated in the Utilities sector (1.1 S/B ratio), and in Caa1-Caa3 (1.1 S/B ratio) rated bonds.

Figure 4: Things to watch

Time (EST)	Event	Survey	UBS Est.	Prior
8:30 AM	Initial Jobless Claims (Nov 8)	280k	278k	278k
8:30 AM	Continuing Claims	2,349k	--	2,348k
10:00 AM	JOLTS Job Openings (Sep)	4,800	--	4,835
2:00 PM	Federal Budget (Oct)	-\$111.7B	--	-\$91.0B

Source: UBS, Bloomberg

EU: All that glistens IS credit

Finally, we're there. We now have the lowest spread levels since the crisis peak (Q1 2009) for IG non-financial corporates, as measured by the iBoxx index (B+101.7bp). They're lower in HY too, but here it's more about the retracement - by 50%, of the weakness we saw in Q3 this year. Returns in HY are ratcheting higher as a result, now up at 5.5% YTD and it's beginning to look respectable for the asset class after that quite difficult summer. That's the nuts and bolts of it. The focus today was on the primary markets and the sluice gates opened with a deluge of issuance. There was something for everyone. T2 insurance paper, a corporate hybrid, high and low beta IG corporates and senior bank deals swamped a product hungry investor base. That ought to have put a cap on the squeeze in spreads given investors were distracted by the heavy supply, but in reality it didn't, and we look for the iBoxx index to edge lower and closer to that B+100bp level. Equities may have been notably weaker, and govies caught a bid but it passed us by. The mood has changed quite noticeably in the corporate bond market. Even the HY cash market was better bid despite the stock market being down 1.5% and those indices blindly following them higher (X-Over +8bp). High cash balances, fear, greed, performance and the herd instinct are all making this a rather joyous grabfest into year-end.

So, deals galore met with the usual response. They were gorged on. The pick of the bunch of the corporate deals was the Gas Natural hybrid. The Ba1/BB+ rated structure offered a final yield of 4.125% and met with a tremendous interest given that yield is otherwise unachievable in the plain vanilla high yield market - and the group raised €1bn from their efforts. At the low beta end of the market, Total (Aa1/AA) raised a combined dual-tranche €1.85bn in a 5-year floating format (3mE+30bp) and 10-year fixed at midswaps+45bp; both priced at the tighter end of the initial price talk. BG Energy (A2/A-) raised a combined €1.575bn with an 8-year at midswaps+50 and a 15-year at midswaps+85bp. For these IG deals, the long BG Energy deal was the sole 2-handle coupon offering. In financials, we had three plain vanilla senior deals from Lloyds Bank (7-year at midswaps+48bp, €1.5bn), Danske Bank (4-year FRN at 3mE+38bp, €1bn) and Morgan Stanley (5-year FRN at 3mE+73bp for €1.25bn). The Lloyds deal (Opco, A1/A) was very cheap even after the spread was tightened by 12bp versus initial price talk. They paid +24bp for a 2-year extension (with 19s at midswaps+24bp). CNP Assurance gave us some extra juice in a T2 PNC10 €500m transaction at midswaps+310bp. Aareal Bank announced plans for an AT1 issue while SAP and Pirelli were also looking to get deals away in the near future.

So, in the secondary market, the corporate market was better bid (1-2bp) amid little real visibility. Still, performance YTD will rise as underlying yields fell and spreads tightened a touch. The follow through was clear in higher beta sectors where the corporate hybrids moved up to a quarter of a point higher - and here we some decent two-way activity. CoCos were flattish to a small down in price and this was the only sector to follow stocks and the iTraxx indices. Main was up at 64bp (mid, +1bp versus the open) while X-Over went up at 349bp (+9bp). The 10-year bund yield dropped to 0.8%, the 4-year went negative and the 5-year down at 10bp. All of this on the back of low growth and inflation for longer musings again from a central banker (Carney at the BoE). Of course corporate bonds retain their lustre!

Suki Mann
Strategist
suki.mann@ubs.com
+44-20-7567 7487

Thibault Colle
Strategist
thibault.colle@ubs.com
+44-20-7568-0132

Figure 5: Market Update

			Spreads (bp)				Yields (%)			
			Current	1d chg	1w chg	1m chg	Current	1d chg	1w chg	1m chg
US	Cash	US IG	121	1	2	8	3.05	0.00	0.02	0.14
		US Fin	108	0	0	6	2.67	-0.01	0.01	0.13
		US Non Fin	128	1	3	9	3.19	0.01	0.03	0.14
		US HY	456	1	1	-33	5.87	0.00	0.00	-0.35
	CDS	CDX IG	64	0	-1	-7	-	-	-	-
		CDX HY (\$)	107.1	0.0	0.2	2.0	-	-	-	-
	Equities*	S&P 500	2,038	-0.1%	0.7%	6.9%	-	-	-	-
		VIX	13	0.8%	-8.1%	-38.7%	-	-	-	-
	Treasury	10y UST	-	-	-	-	2.37	0.01	0.03	0.09
EU	Cash	iBoxx € Corp	101	0	-4	-7	1.42	-0.02	-0.05	-0.08
		iBoxx € Fin	110	0	-4	-9	1.42	-0.01	-0.04	-0.10
		iBoxx € Non Fin	96	0	-3	-5	1.43	-0.01	-0.04	-0.06
		iBoxx € HY	402	-1	-16	-39	4.22	-0.02	-0.16	-0.40
	CDS	iTraxx Main	64	1	-2	-6	-	-	-	-
		iTraxx Crossover	349	9	-7	-18	-	-	-	-
		iTraxx Fin Snr	65	2	-2	-2	-	-	-	-
		iTraxx Fin Sub	147	-1	-11	-18	-	-	-	-
	Equities*	€ Stoxx	3,047	-1.8%	-1.4%	1.9%	-	-	-	-
	Treasury	10y Bund	-	-	-	-	0.81	-0.02	-0.02	-0.08
		10y UKT	-	-	-	-	2.19	-0.04	-0.07	-0.02
	Asia	JACI	254	0	1	-4	4.66	0.00	-0.03	-0.06
	CDS	iTraxx Asia ex Japan IG	106	1	-1	-13	-	-	-	-

Source: UBS, Bloomberg, Markit, Yieldbook; Data as of COB Y'day.

Figure 6: Credit Index Skew

12-Nov-2014		Skew*		
Index	Current	1d chg	1w chg	1m chg
CDX IG	-6	0	-1	-2
CDX HY (\$)	\$0.1	-\$0.1	\$0.0	\$0.5
iTraxx Main	-2	1	0	-2
iTraxx XO	-1	5	2	4
Fin Snr	3	1	0	2
Fin Sub	5	-2	-4	-6
iTraxx Asia ex Japan IG	8	1	-1	-8

Source: UBS, Markit; *Skew=Index-Intrinsic;

Figure 7: CDS Sector Movements

11-Nov-2014	CDX IG					CDX HY					iTraxx MAIN					iTraxx XO				
Sector Changes (bp)	#	Avg	1d	1wk	1m	#	Avg	1d	1wk	1m	#	Avg	1d	1wk	1m	#	Avg	1d	1wk	1m
Consumer Discretionary	32	66	0	-1	-8	36	820	4	-18	79	21	63	-1	-4	-3	14	449	-8	-16	-26
Consumer Staples	13	94	0	-1	-5	6	227	1	-16	-245	19	76	-1	-3	-2	6	467	6	2	-12
Energy	9	125	0	-5	-7	6	537	-2	-1	83	6	57	-1	0	3	1	239	-2	-16	3
Financials	20	77	0	11	3	13	346	1	-10	-124	25	63	-1	-4	-5	2	419	-9	-17	-39
Health Care	10	39	0	-1	-7	4	253	2	27	-4	3	35	0	-1	-3	3	540	-4	-11	-30
Industrials	16	34	0	-1	-7	7	222	0	-17	-42	16	67	-1	-4	-5	21	333	-7	-15	-21
Information Technology	7	87	-1	-2	-14	11	298	0	-5	-11	2	85	-3	-7	10	4	232	-6	-26	-41
Materials	10	116	0	1	3	10	262	1	-3	-25	8	85	-1	-1	-5	11	461	-4	-16	-22
Telecommunication Services	2	48	0	-3	-5	4	286	0	9	-5	11	59	-1	-5	-8	11	265	-6	-14	-14
Utilities	6	43	0	-2	-11	3	257	-2	-10	-49	14	64	-1	-2	-5	2	432	3	0	95
Total/Theoretical Sprd	125	71	0	0	-5	100	342	0	-5	-33	125	65	-1	-3	-4	75	345	-6	-16	-22

Source: UBS, Markit

Figure 8: Daily CDS Winners/Losers

WINNERS					LOSERS				
Issuer	1d chg	1wk chg	1m chg		Issuer	1d chg	1wk chg	1m chg	
CDX (IG)					CDX (IG)				
CVS Caremark	25	-4	-1	-7	Ford Motor Company	116	+2	+1	-11
Avnet	87	-1	-4	-24	Halliburton Co	54	+2	+0	+4
Block Financial	136	-1	-7	-18	Darden Restaurants	177	+1	-9	+5
Arrow Electronics	77	-1	-6	-25	Comcast	34	+1	-1	-6
Computer Sciences	130	-1	+1	-16	Devon Energy	86	+1	-14	-16
CDX (HY)					CDX (HY)				
First Oil	1,699	-18	+8	+22	Caesars Entmnt	11,735	+127	-459	+5,284
Toys R Us	1,911	-13	-79	-182	RadioShack	4,720	+53	+130	-1,943
Boyd Gaming	415	-3	-23	-100	Polyone	180	+7	-18	-87
MBIA Insurance	939	-3	+73	+67	Liberty Media	251	+4	+3	-11
Calpine	299	-3	-12	-37	CIT Group	167	+4	-2	-13
iTraxx (Main)					iTraxx (Main)				
STMicroelectronics	120	-6	-11	+24	Pearson	58	+0	-2	-6
Wendel	105	-4	-14	-10	Solvay	58	+0	-1	-4
Vodafone Group	60	-4	-7	-11	Bayer	34	+0	-2	-5
Intesa Sanpaolo	76	-4	-6	-12	ISS Global A/S	76	+0	+2	+2
PostNL NV	123	-4	-4	+25	Nestle	24	+0	+1	+1
iTraxx (XO)					iTraxx (XO)				
New Look Bondco I	337	-51	-53	+0	Stretford 79	747	+50	+70	+56
Abengoa	689	-21	+26	+164	Public Power Corp Fin	741	+9	+11	+208
Grupo Isolux Corsan Fin	638	-21	-15	+58	Hema Bondco I B.V.	843	+7	+60	+50
Lock Lower Holdings	637	-14	-18	-41	Premier Foods Finance	691	+5	-5	-58
Matalan Finance Plc	766	-13	+0	-88	Norske Skogindustrier	2,556	+3	-5	+73

Source: UBS, Markit; Data as of 11th Nov

Figure 9: Today's Earning Releases

Time*	US	Estimate	Guidance	Time*	Europe	Estimate	Guidance
Bef-mkt	Helmerich & Payne Inc	1.67	--	Bef-mkt	Tyco International Ltd	0.56	0.55
Bef-mkt	Viacom Inc	1.68	--	5:45 AM	Koninklijke Ahold NV	0.21	--
Bef-mkt	RCS Capital Corp	0.43	--	6:00 AM	RWE AG	0.06	--
Bef-mkt	CDK Global Inc	--	--	6:00 AM	KBC Groep NV	0.91	--
7:00 AM	Kohl's Corp	0.74	--	6:00 AM	K+S AG	0.26	--
7:00 AM	Wal-Mart Stores Inc	1.12	--	6:00 AM	Merck KGaA	1.17	--
Aft-mkt	Nordstrom Inc	0.71	--	6:30 AM	Aegon NV	0.12	--
Aft-mkt	Applied Materials Inc	0.27	0.27	6:30 AM	Solvay SA	1.73	--
				7:00 AM	GDF Suez	0.37	--
				7:00 AM	London Stock Exchange Group PLC	0.52	--
				--	Sodexo SA	3.41	--
				--	SABMiller PLC	1.27	--
				--	Trevi Finanziaria Industriale SpA	--	--
				--	Anima Holding SpA	0.08	--

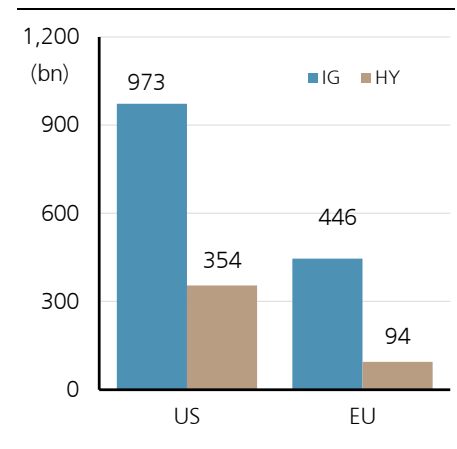
Source: UBS, Bloomberg *US Time Zone – EST and Europe Time Zone – London Time; Amounts in local currency

Figure 11: Yesterday's Global Corporate Bond Issuance

Principal (mm)	Issuer	Cpn (%)	Maturity	Moody's	S&P	Spd (bp)
11,950	USD Investment Grade					
1,750	Gilead Sciences Inc	3.500	2/1/2025	A3	NA	115
1,750	Gilead Sciences Inc	4.500	2/1/2045	A3	NA	145
1,500	Phillips 66	4.875	11/15/2044	A3	NA	190
1,000	Phillips 66	4.650	11/15/2034	A3	NA	165
800	Sunoco Logistics Partner	5.350	5/15/2045	Baa3	BBB	230
750	Volkswagen Group America	2.450	11/20/2019	A3	NA	85
750	Volkswagen Group America	1.600	11/20/2017	A3	NA	65
600	Canadian Natl Resources	3.900	2/1/2025	Baa1	NA	155
600	Canadian Natl Resources	1.750	1/15/2018	Baa1	NA	80
500	Volkswagen Group America	FRN	11/20/2017	A3	NA	NR
500	Gilead Sciences Inc	2.350	2/1/2020	A3	NA	75
300	Avalonbay Communities In	3.500	11/15/2024	Baa1	NA	123
300	Duke Realty Lp	3.750	12/1/2024	NA	NA	153
300	Paccar Financial Corp	1.400	11/17/2017	NA	NA	45
250	Tanger Properties Lp	3.750	12/1/2024	Baa1	NA	145
200	Sunoco Logistics Partner	4.250	4/1/2024	Baa3	BBB	155
100	Fulton Financial Corp	4.500	11/15/2024	Baa2	NA	220
3,115	USD High Yield					
800	Ally Financial Inc	3.750	11/18/2019	B1	NA	NR
600	Sm Energy Co	6.125	11/15/2022	Ba2	BB	394
540	E*Trade Financial Corp	5.375	11/15/2022	Ba3	B+	319
425	Isis Pharmaceuticals Inc	1.000	11/15/2021	NA	NA	NR
350	Kennedy-Wilson Inc	5.875	4/1/2024	B2	BB-	329
225	Audatex North America In	6.125	11/1/2023	Ba3	BB-	320
175	Audatex North America In	6.000	6/15/2021	Ba3	BB-	315
8,472	EUR Investment Grade					
1,500	Lloyds Bank Plc	1.000	11/19/2021	NA	NA	80
1,250	Morgan Stanley	FRN	11/19/2019	Baa2	A-	NR
1,000	Gas Natural Fenosa Finan	4.125	11/30/2049	NA	NA	NR
1,000	Total Capital Intl Sa	FRN	3/19/2020	Aa1	NA	NR
1,000	Danske Bank A/S	FRN	11/19/2018	Baa1	NA	NR
850	Total Capital Intl Sa	1.375	3/19/2025	Aa1	NA	69
800	Bg Energy Capital Plc	2.250	11/21/2029	A2	NA	111
775	Bg Energy Capital Plc	1.250	11/21/2022	A2	NA	77
297	Pt Jersey Ltd	0.500	11/19/2019	NA	NA	NR
325	EUR High Yield					
225	Alize Finco Plc	6.250	12/1/2021	NA	NA	655
100	Alize Finco Plc	FRN	12/1/2021	NA	NA	NR
150	GBP Investment Grade					
150	Standard Chartered Bank	FRN	11/20/2015	NA	NA	NR
0	GBP High Yield					
NA						

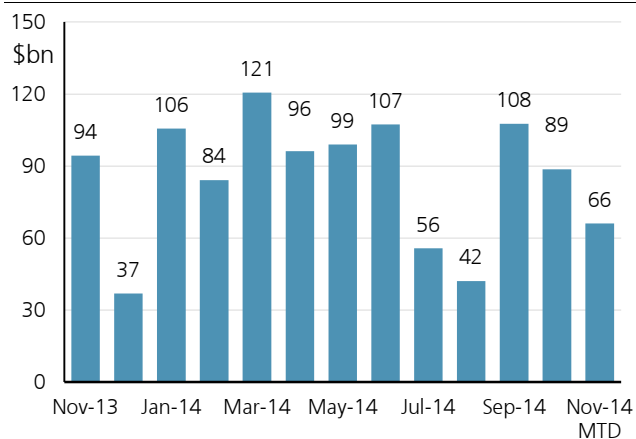
Source: UBS, Bloomberg; Amounts in local currency

Figure 10: 2014 YTD Issuance Summary



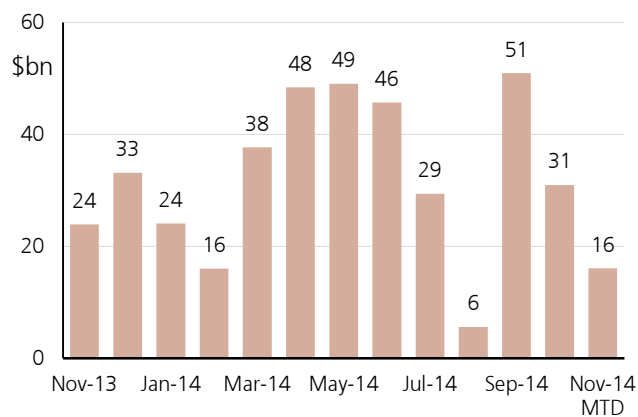
Source: UBS, Bloomberg; Amounts in local currency

Figure 12: USD – IG Monthly Issuance



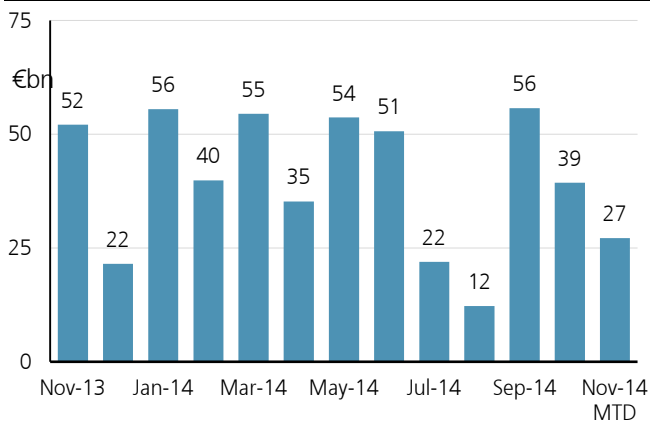
Source: UBS, Bloomberg

Figure 13: USD – HY Monthly Issuance



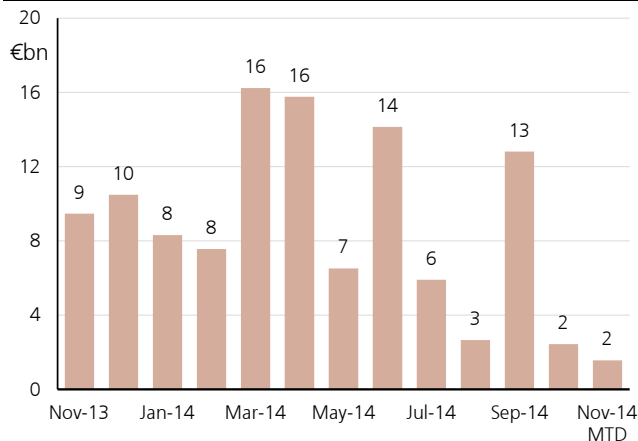
Source: UBS, Bloomberg

Figure 14: EUR – IG Monthly Issuance



Source: UBS, Bloomberg

Figure 15: EUR – HY Monthly Issuance



Source: UBS, Bloomberg

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. 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.

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.

UBS Global Credit Strategy and Research: Rating Definitions

UBS ranks potential investment opportunities within non-government fixed income markets and sectors. Issuers are rated on one or both criteria shown below, and specific securities may be recommended as well.

	UBS Terminology	Time Horizon	Definition
Issuer Ratings			
Credit Rating	AAA, AA, A, BBB, BB, B, CCC, CC, C (+/-)	Up to 12 months	UBS' assessment of a company's creditworthiness
Outlook	Positive; Stable; Negative	Up to 6 months	UBS' expected trend in a company's creditworthiness
Security Recommendations			
Bond Recommendation	Outperform; Marketperform; Underperform	Up to 3 months	A corporate bond's expected relative performance versus a defined reference
CDS Recommendation	Buy Protection; Sell Protection	Up to 3 months	Recommendation to hedge a company's creditworthiness

Note: Recommendations for periods under 3 months are defined as 'Tactical', as in Tactical Outperform or Tactical Underperform. The UBS credit rating may be modified by the addition of a plus (+) or minus (-) sign where applicable to show relative standing within the major categories.

Source: UBS

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.

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 express 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.

Research will initiate, update and cease coverage solely at the discretion of UBS Investment Bank Research Management. The analysis contained in this document is based on numerous assumptions. 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.

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 ACP (Autorité de Contrôle Prudentiel) 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 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:** 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 (spółka z ograniczoną odpowiedzialnością) Oddział w Polsce. **Russia:** Prepared and distributed by UBS Securities CJSC. **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 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 document, the document is also deemed to have been prepared by UBS Italia Sim S.p.A. **South Africa:** Distributed by UBS South Africa (Pty) Limited, an authorised user of the JSE and an authorised Financial Services Provider. **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 closed 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. **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. **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. **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. [mica (p) 107/09/2013 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). Clients of UBS Wealth Management Australia Ltd: Distributed by UBS Wealth Management Australia Ltd (Holder of Australian Financial Services Licence No. 231127). 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. **New Zealand:** Distributed by UBS New Zealand Ltd. 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. **Dubai:** The research distributed by UBS AG Dubai Branch is intended for Professional Clients only and is not for further distribution within the United Arab Emirates. **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 (253825-x). **India:** Prepared 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 SEBI Registration Numbers: NSE (Capital Market Segment): INB230951431, NSE (F&O Segment) INF230951431, BSE (Capital Market Segment) INB010951437.

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 2014. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

