Creative Global Investments

Friday, May 30th 2014

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Objectivity

Integrity

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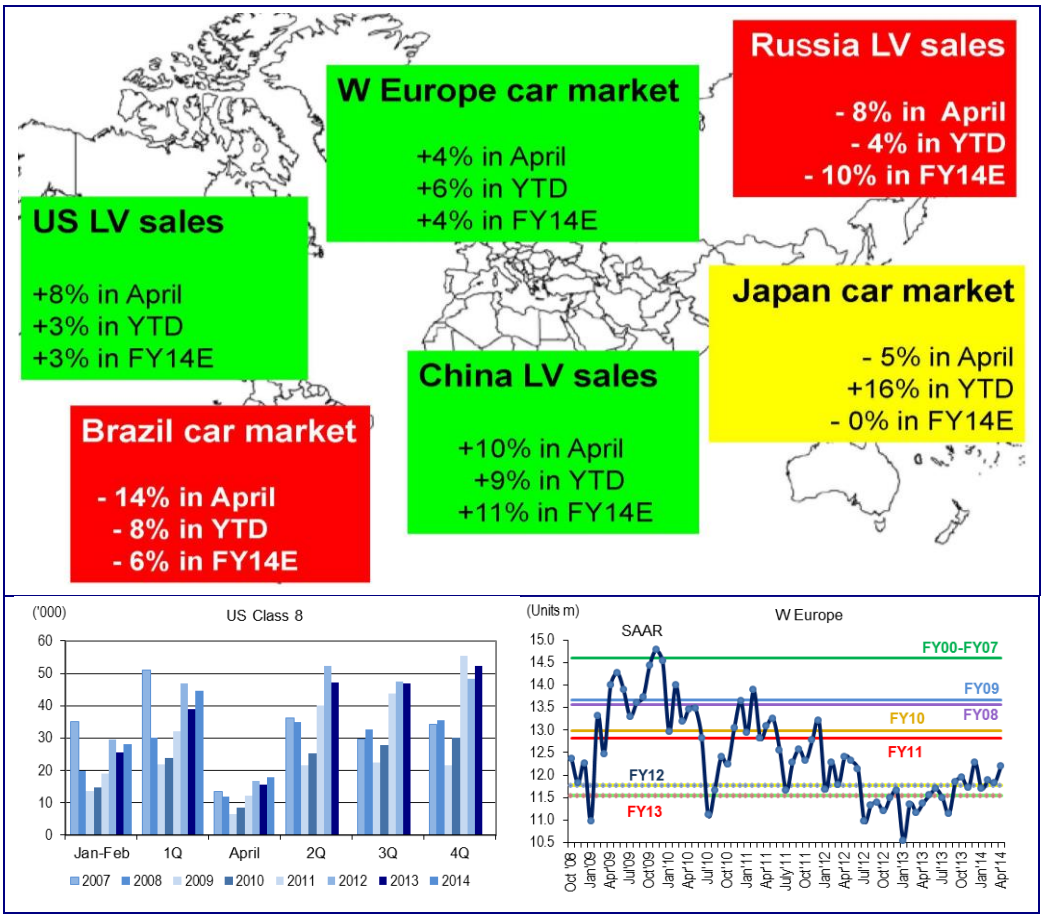
Global Automotive Demand Atlas

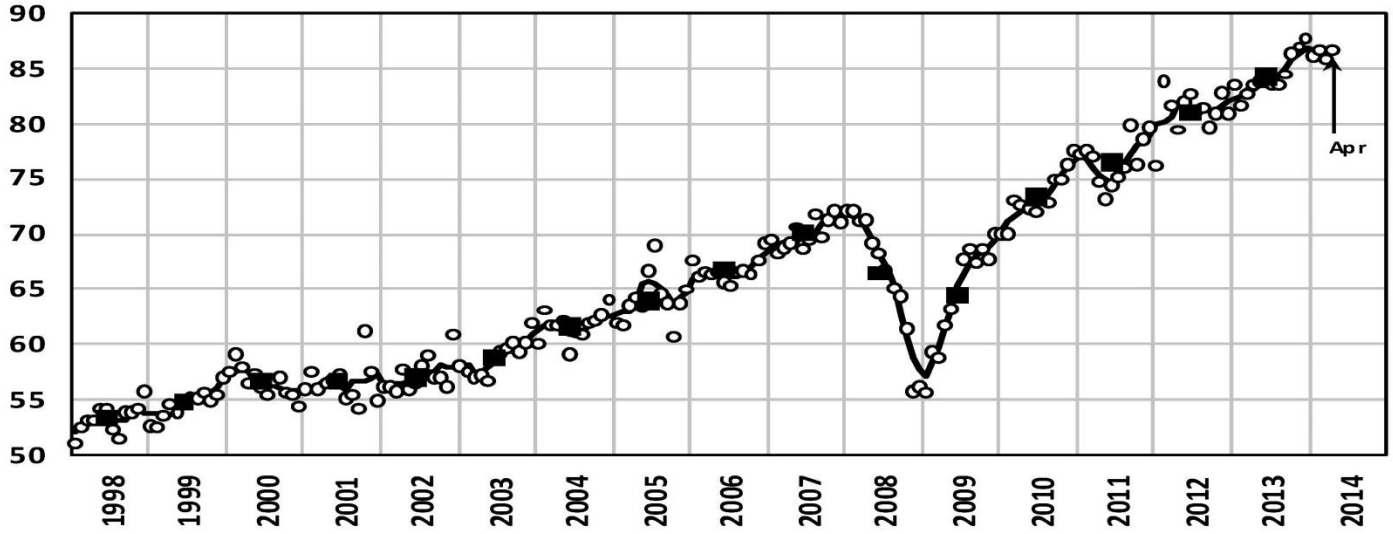
May 2014 edition

Global light vehicle markets

+3% in April
+4% in YTD
+3% in FY14E



Global LV sales – monthly SAAR (1998-Apr'14)



Source: LMC Automotive

In April, global light vehicle sales grew 3.3% yoy to 7.22m units, after increases of 5.2% and 5.7% in March and February, resulting in a 4.2% yoy increase to 28.97m units YTD. LMC Automotive (LMCA) calculate that the SAAR (seasonally adjusted annualised rate) was 86.6m in April, slightly better than in March, and 86.3m in YTD, broadly in line with 4Q13's 86.5m and topping the FY13 average of 84.4m. **However, due to a worsening outlook for a wide range of emerging markets, the FY14E forecast is a 3.5% increase to some 87.3m; this implies a deceleration from last year's restated +3.9% growth to 84.36m.** (See also GADA March 2014 edition of March 31st 2014.)

Contents

US LV sales

+8.0% in April

+3.0% in YTD

In April, US light vehicle sales rose 8.0% yoy to 1.39m units, after 5.6% in March, resulting in a 3.0% yoy increase to 5.12m YTD. Adjusted for the number of selling days (26 in Apr'14, 25 in Apr'13 and 26 in Mar'14), the market was up 3.8% yoy and down 13.0% mom in April and down 0.9% yoy YTD. According to LMC Automotive (LMCA), April's SAAR was 16.0m units/year, up 0.8m yoy and down 0.3m mom/from March's 16.3m, and only 0.4m lower than an extremely strong November SAAR of 16.4m that had been the best-selling month since February 2007. YTD, the SAAR averaged 15.7m, 1% up from FY13's average of 15.57m.

The US LV market's recovery to a SAAR of 16.2m in March and April, the best back-to-back monthly sales since autumn 2007, has confirmed the view that the sluggish start to the year was indeed attributable to inclement weather. This is the more so as retail sales have been again the driving force in March and April. Indeed, in April the SAAR of retail sales was 13.2m, up 0.2m mom from 13.0m in March and up 1.1m yoy, thus continuing their market outperformance that has been intact since May 2012.

+3.3% to 16.08m in FY14E

However, the US LV market has become increasingly dependent on the competitive pricing offered by Japanese manufacturers that benefit from a weak yen and the more aggressive marketing on the part of all other OEMs. Reflecting 'normalisation', after a catch-up phase following the financial crisis, the market is still set for a 3.3% increase to 16.08m units in FY14E.

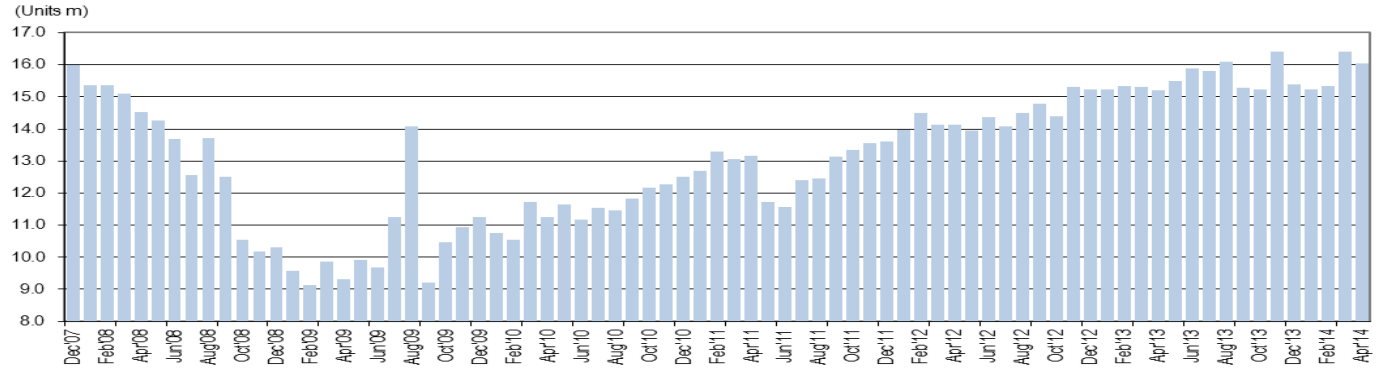
Pent-up demand, easier credit and historically high residual values

Indeed, a variety of positive factors are expected to continue to drive US LV sales in 2014 and beyond; they include a pent-up demand, though to a declining degree, growing household wealth, population growth, residual values at historically high levels, a record number of new products and last, but not least, easy consumer credit conditions. Indeed, the current credit terms are the most favourable since 2008, illustrated by low interest rates, increased lending to sub-prime customers and longer repayment terms. As a result leasing penetration has risen to 25% in 2013, compared to just 11% in 2009. GDP and private consumption growth is expected to accelerate in 2014 and 2015, thus partly compensating for an eventual increase in interest rates. (See charts pp. 4-5.)

Top three OEMs lose share

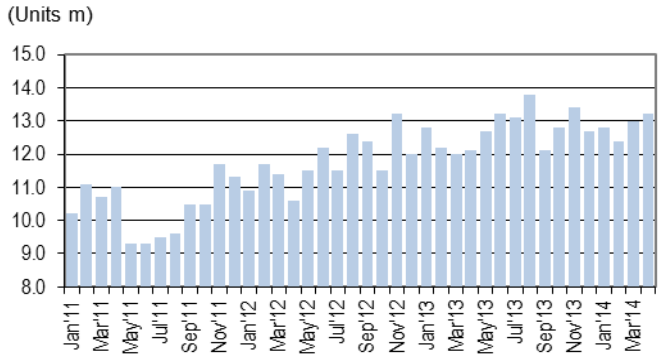
Overall, light trucks outperformed, advancing 13.3% in April and 8.9% to 2.73m or 53.2% of total market so far in 2014. YTD, the three leading OEMs, underperformed as their collective sales increased 6.0% yoy in April and remained flat in YTD. For the GM group, only a sales increase by 6.9% yoy in April ensured flat sales at 904k units YTD, not a mean feast in view of the recall crisis; Ford's group sales declined 1.1% yoy in April and 2.4% to 781k units YTD and Toyota's group sales jumped 13.3% in April and increased 2.1% to 721k units YTD. FiatChrysler on the other hand generated increases of 14.5% in April and 12.3% to 659k units YTD, thanks to Jeep and Ram trucks.

US LV sales – monthly SAAR (Dec'07-Apr'14)



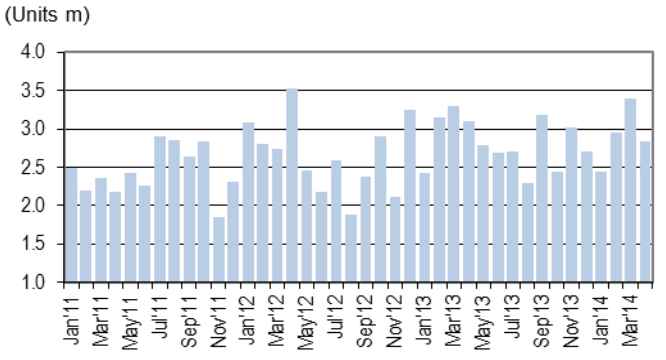
Note: The estimated seasonal factors for the SAAR calculations for August 2012 – July 2013 are restated due to the recent update of seasonal factors from the U.S. Bureau of Economic Analysis (BEA). Source: Autodata

US Retail LV sales – monthly SAAR (Jan'11–Apr'14)



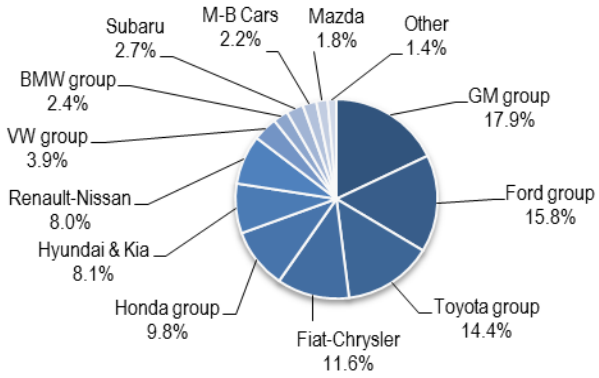
Source: LMC Automotive

US Fleet LV sales – monthly SAAR (Jan'11–Apr'14)



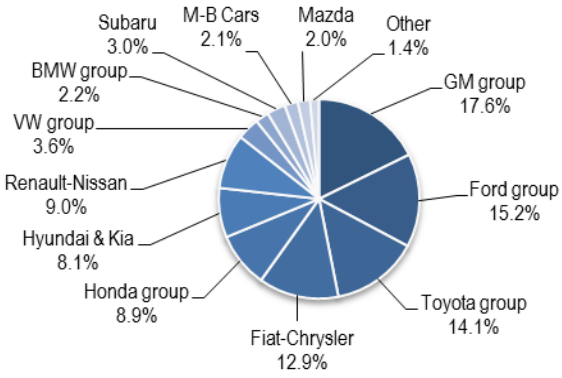
Source: LMC Automotive

US – LV market by OEM (FY13)



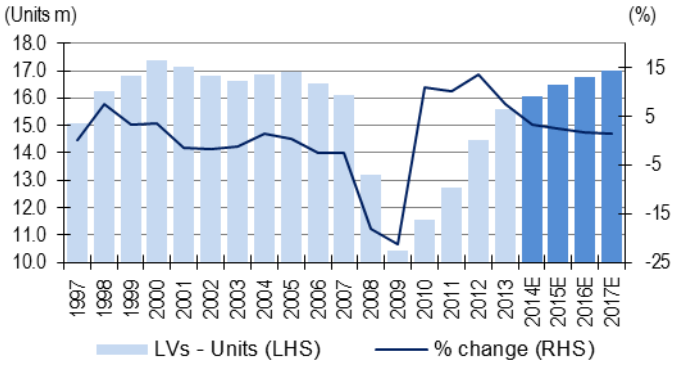
Source: LMC Automotive and CGI calculations

US – LV market by OEM (Jan-Apr'14)



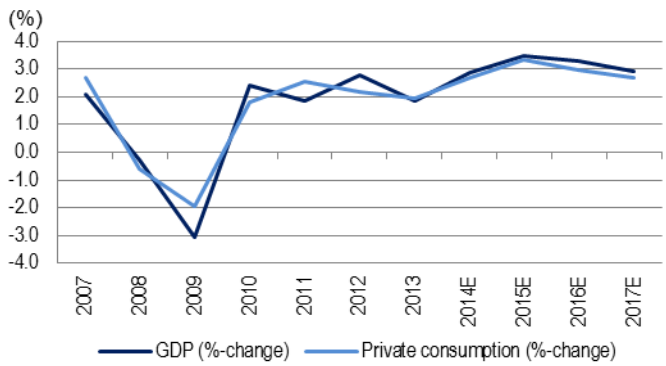
Source: LMC Automotive and CGI calculations

US LV sales (1997-2017E)



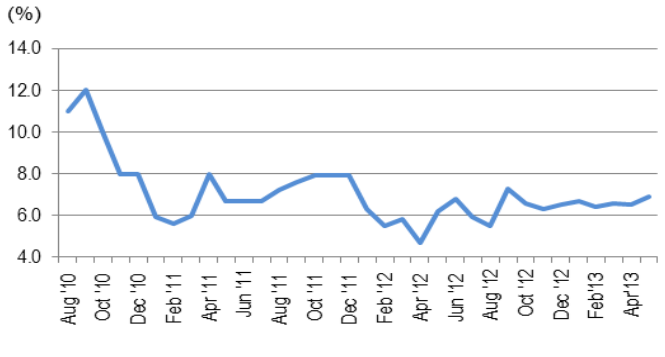
Source: LMC Automotive and CGI estimates

US – real GDP and private consumption (2007-17E)



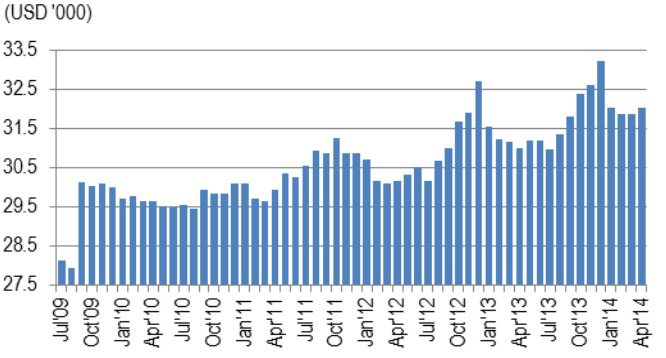
Source: Oxford Economic, IMF and CGI estimates

US LV – avge. discount from MSPR (Aug'10-May'13)



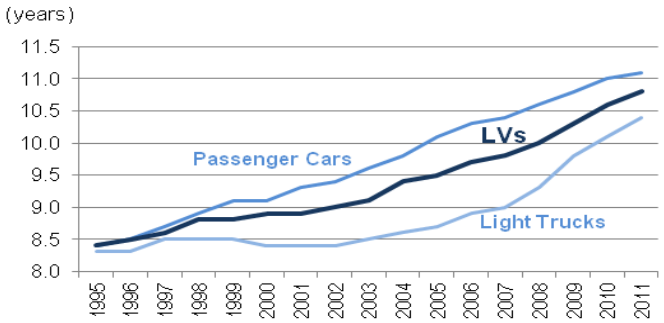
Source: TrueCar

US LV market – avge. transaction price (Jul'09-Apr'14)



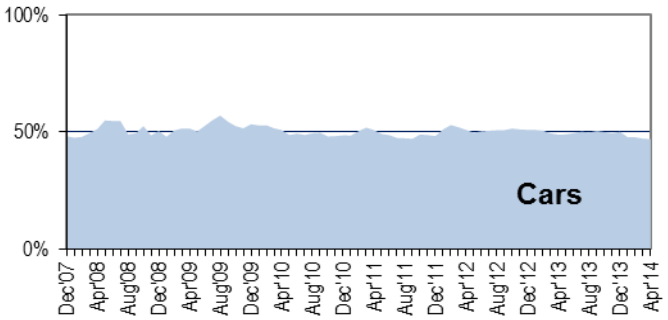
Source: PIN (Power Information Network by J.D. Power and Associates)

US LV population – average age (1995-2011*)



(*) July of respective year. Source: Polk

US LV sales - split cars & trucks (Dec'07-Apr'14)

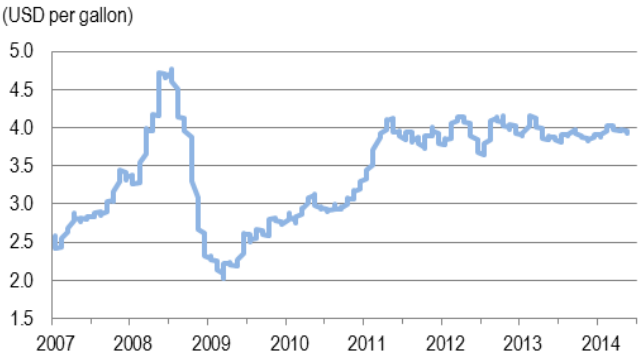


Source: Autodata

US – Gas retail price (USD/US gallon) (Jan'07-May'14)

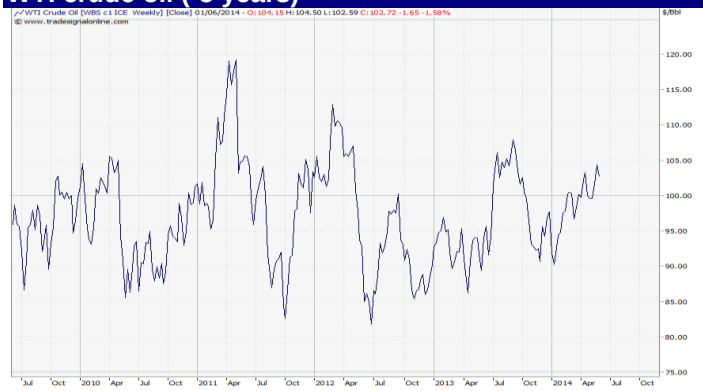
Weekly U.S. All Grades All Formulations Retail Gasoline Prices (Dollars per Gallon) Source: EIA

US – Diesel retail price (USD/gallon) (Jan'07-May'14)



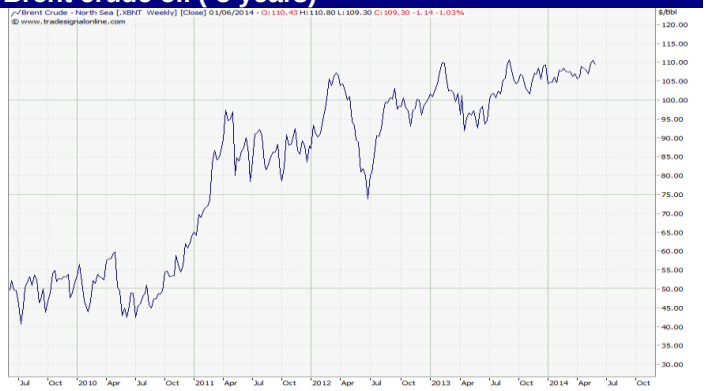
Weekly U.S. Diesel (On-Highway) - All Types (Dollars per Gallon) Source: EIA

WTI crude oil (-5 years)



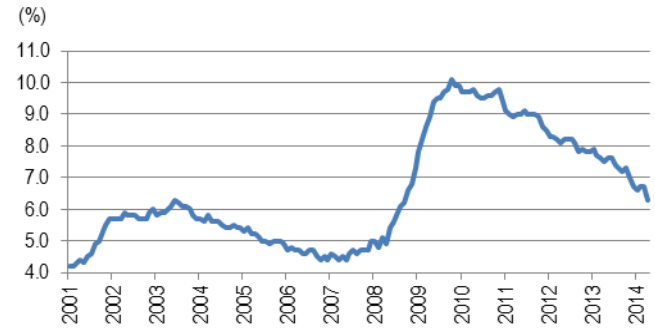
Source: tradesignalonline.com

Brent crude oil (-5 years)



Source: tradesignalonline.com

US – Unemployment rate (Jan'01-Apr'14)



Source: Bureau of Labor Statistics

US – Consumer confidence (Jan'08-May'14)

Source: Thomson Reuters/University of Michigan

Western Europe car market

+3.5% in April

+6.3% in YTD

In April, West European passenger car registrations increased 3.5% yoy to 1.05m units, after increases of 9.5% in March and 6.3% in February, resulting in a 6.3% yoy increase to 4.18m YTD. Underlying demand expressed as SAAR strengthened again in April, to 12.20m, up 3.2% mom from March's 1.83m and only marginally below December's strong SAAR of 12.80m, the highest level since March 2012's 12.3m. Over the past 16 months, the SAAR has improved by 16%, from an exceedingly low SAAR of 10.55m in January 2013. However, while YTD's SAAR of 11.92m was up 3.3% on FY13's 11.55m, it remained 18% below the long-term pre-crisis average of 14.6m units. (See charts on page 7.)

All Big 5 advance YTD

Germany +2.9%

France +3.7%

UK +12.5%

Italy +5.0%

Spain +16.2%

Germany, Western Europe's largest car market by far declined 3.6% in April and was up 2.9% to 0.99m YTD. YTD, the SAAR of 3.07m was 3.8% up on FY13's result of 2.95m and just 7.1% below the LT pre-crisis level of 3.3m. **French** car registrations increased 5.8% in April and 3.7% to 613.6k units YTD. At 1.80m units, YTD's SAAR was running 0.4% below FY13's 2.95m and 14% below the pre-crisis 2000-07 level of 2.09m. In the **UK**, strong private demand continued to drive the car market that increased 8.2% in April and 12.5% YTD, making it the only major European market that has grown consistently over the past 26 months. Indeed, at 2.35m units YTD's SAAR was in line with FY13's 2.26m and only 4.2% below the long-term pre-crisis average of 2.45m units. YTD, **Italian** car registrations increased 5.0% from an exceedingly weak 2013 and the SAAR of 1.33m was 1.7% above FY13's 1.30m and remained 43% below the 2.34m LT pre-crisis trend. In **Spain**, the PIVE incentive scheme continued to support the car market that advanced 28.7% in April and 16.2% YTD. Although YTD's SAAR of 0.78m was 7.9% up from FY13's 0.72m, it remained 47% below pre-crisis trend. (See discussion for the Big Five on pp. 9-13.)

+4.3% in FY14E

Underlying demand has been on an uptrend since hitting a low of 10.55m in January 2013 and the market is now firmly on the road to recovery. In FY14E, GDP is expected to grow by some 1% in the Eurozone (after two years of contraction) and by 3.0% in the UK. In view of an upgrade for the five biggest markets, we now expect that in FY14E the WE car market will grow 4.3% or 500k units to 12.05m, with the UK and Germany as the largest contributors. However, the recovery is expected to remain slow, preventing the WE market regaining the pre-crisis 2007 level by 2021. (See charts p 7.)

No reversal of collapse in pricing discipline in the short term

We would like to caution that any 'excitement' over the beginning recovery in the WE car market after six years of recession is overshadowed by OEMs expecting no marked improvement in pricing in the short term and indicating that discounts from sticker prices in excess of 10% are still the norm. Although the horrendous competitive pressures originated in the crisis-hit Southern European markets, they have been spreading to the better performing Northern European ones, a trend that has intensified since mid-2012. In addition to record discounts, special deals and cheap financing, OEMs and dealers have increasingly resorted to tactics such as pre-registering.

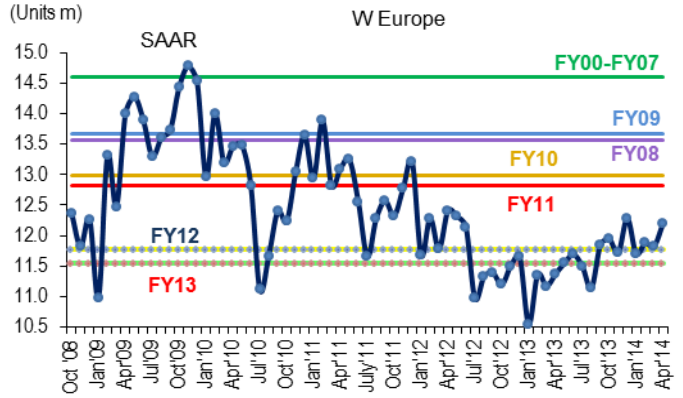
Winners – premium and discount brands

Among the car manufactures, the premium manufacturers (mainly BMW, Mercedes and VW's Audi) and, to a lesser extent discount brands have been the best performers in W Europe so far in the crisis, and should continue to outperform, in our view. The OEMs most vulnerable in the crisis have been PSA, the Renault brand and the European operations of Fiat, GM and Ford. Their vulnerability is only partly due to their geographic footprint and thus exposure to the Southern periphery. (See charts page 8.)

Polarisation in demand

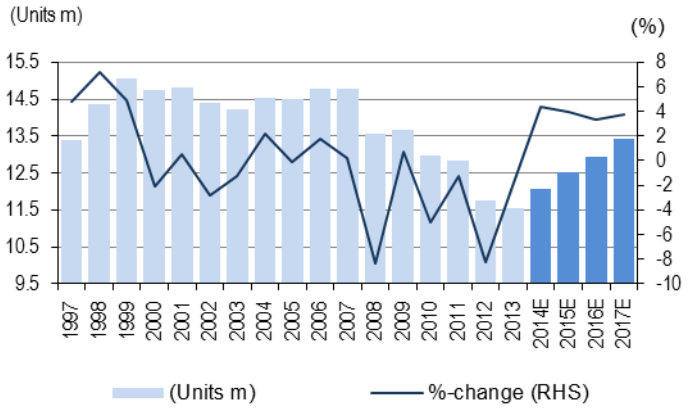
A more import factor, in our view, is the polarisation in demand into premium and discount brands and products, a trend that has been intact for the past 20 years and intensified during the prolonged crisis. Driving forces have been the downsizing on the part of the premium brands and an improvement in quality of discount branded products. As a result, the mainstream brands such as GM's Opel/Vauxhall, Ford and local champions such as Renault, Peugeot, Citroën and Fiat have lost ground.

W Europe – monthly SAAR[1] vs. trend (Oct'08–Apr'14)



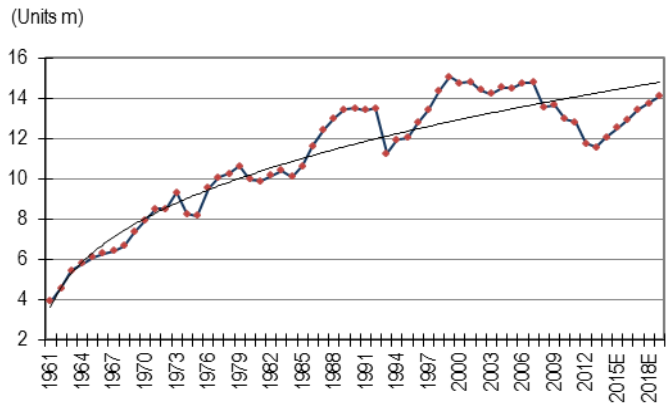
(1) SAAR according to calculations by LMC Automotive. Source: ACEA, LMC Automotive , CGI calculations

W Europe – pc registrations (1997-2017E)



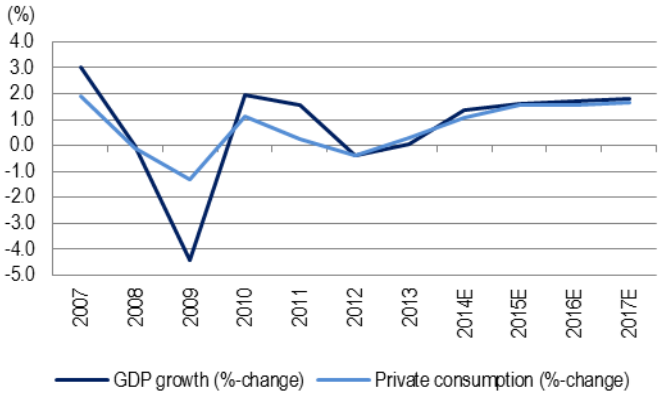
Source: LMC Automotive and CGI estimates

W Europe – pc registrations (1961-2019E)



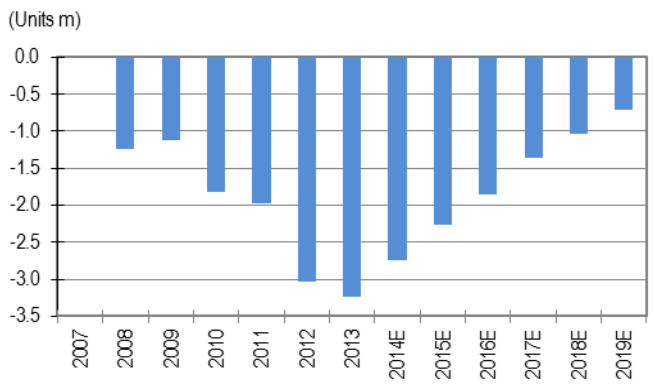
Source: ACEA, LMC Automotive and CGI estimates

W Europe – real GDP and priv. consumption (2007-17E)



Source: Oxford Economics and CGI estimates

W Europe – depth of recession – 2008-19E volume decline vs. 2007



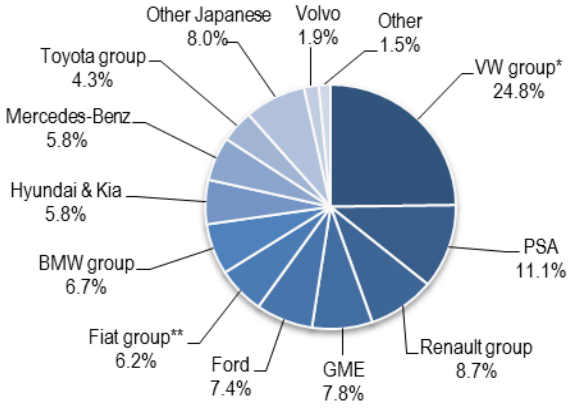
Source: LMC Automotive and CGI estimates

W Europe – current recession in historic context

	Depth[1] (Units m)	(%)	Duration (years)	Trend growth rate (%)
1970 - oil shock	-1.15	-12.4	< 3	5
Early 1980s recession	-0.75	-7.0	~ 6	3-4
1993 recession	-2.26	-16.8	~ 5	2-3
Current crisis (E)	-3.24	-21.9	>14	1-2

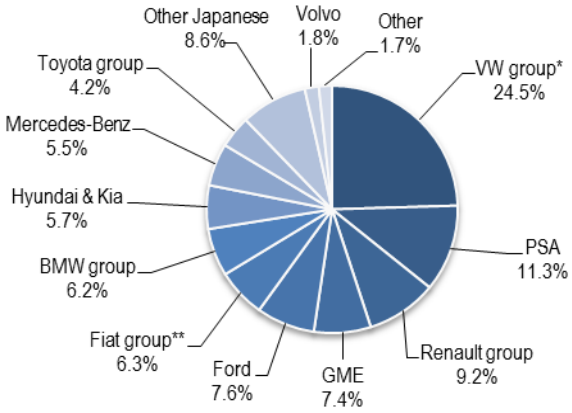
Source: LMC Automotive and CGI estimates

W Europe – pc market by OEM (FY13)



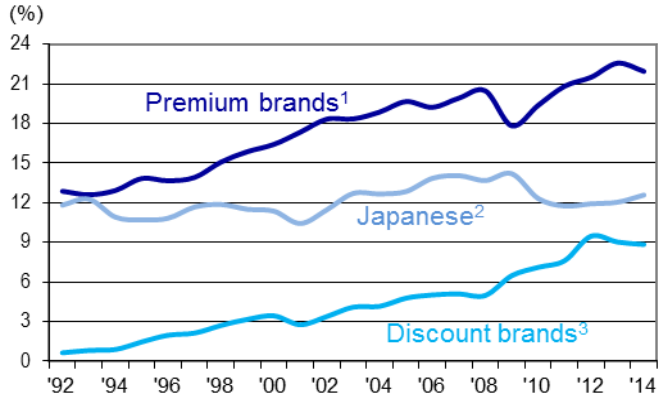
(*) VW group incl. Porsche. (**) Fiat group incl. Chrysler and Jeep. Source: Association Auxiliaire de l'Automobile, ACEA and CGI calculations

W Europe – pc market by OEM (Jan-Apr'14)



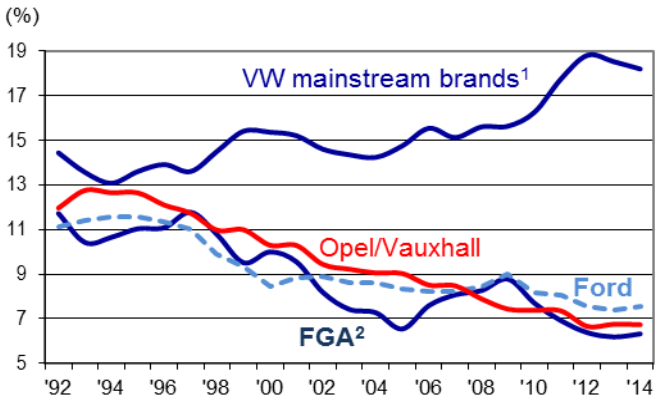
(*) VW group incl. Porsche. (**) Fiat group incl. Chrysler and Jeep. Source: ACEA and CGI calculations

Premium brands, Japanese and discount brands – WE market share ('92-'14*)



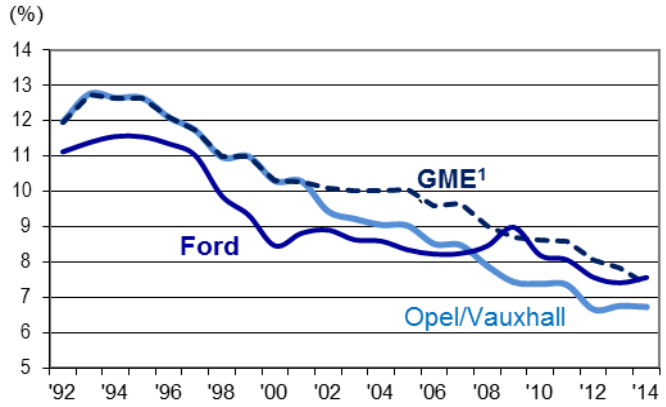
(1) Premium brands: BMW, Mini, Mercedes-Benz, Smart, Audi, Lexus, Porsche, Jaguar, Land Rover, Volvo & SAAB and super-premium brands. (3) Discount brands: Kia, Hyundai, GM's Chevrolet, and Renault's Dacia. (2) Exl. Lexus (*) YTD=Jan-Apr. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calcs

Mainstream brands: VW group excl. Audi, Opel/Vauxhall, Ford, FGA – WE share ('92-'14*)



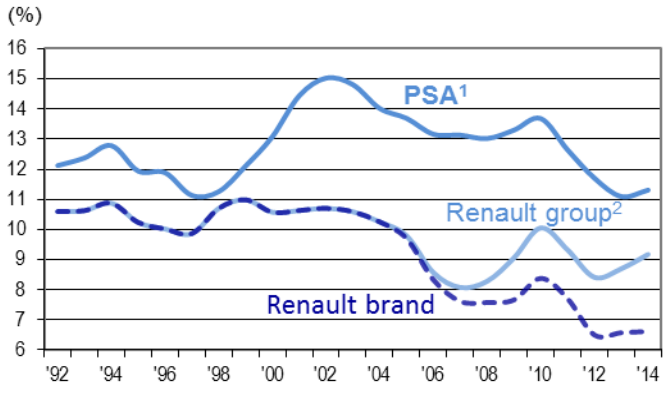
(1) VW mainstream brands: VW, Seat, Skoda. (2) FGA: Fiat, Lancia & Alfa Romeo. Since 2012 also Chrysler & Jeep. (*) YTD=Jan-Apr. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

Ford and GME – WE share ('92-'14*)



(1) GM Europe: Opel, Vauxhall, Chevrolet and other US GM brands; does NOT incl. SAAB. (*) YTD=Jan-Apr. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

PSA and Renault group – WE share ('92-'14*)



(1) PSA: Peugeot and Citroën brands; (2) Renault group: Renault and Dacia brands. (*) YTD=Jan-Apr. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calculations

Germany

-3.6% in April

+2.9% in YTD

In April, the German passenger car market declined 3.6% yoy to 274.1k units, after increases of 5.4% and 4.3% in March and February; this reduced the YTD increase to 2.9% to 0.99m units, after +5.6% yoy in 1Q14. The yoy drop in headline sales is attributable to a smaller number of working days in April 2014 vs. 2013. Indeed, underlying demand strengthened again, to a SAAR of 3.09m, up 6.4% mom from March's 2.90m and only 2% below February's 3.16m that had been the strongest month since May 2012 (SAAR of 3.34m). YTD, the SAAR of 3.07m was 3.8% up on FY13's result of 2.95m and remained 7.1% below the LT pre-crisis level of 3.3m.

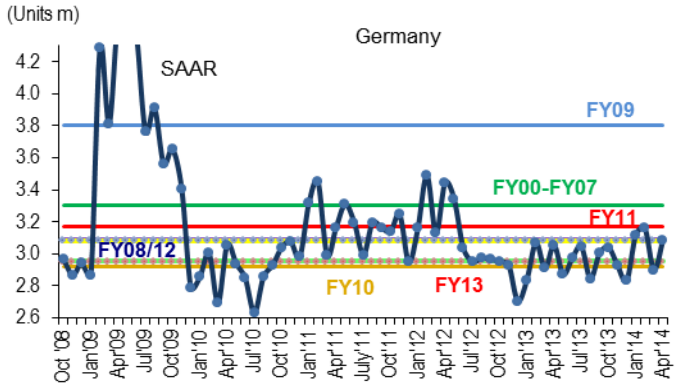
Pricing environment remains tough

The recovery so far in 2014 follows 20 disappointing months, since May 2012, the latest month when the SAAR reached 3.3m units; during 2013, the SAAR was oscillating in the narrow range of 2.50m and 3.05m, despite an improving consumer confidence. We attribute this to the continuing uncertainty regarding the Eurozone, increased availability of young second hand cars and despite an aggressive and desperate marketing environment.

+3.7% in FY14E

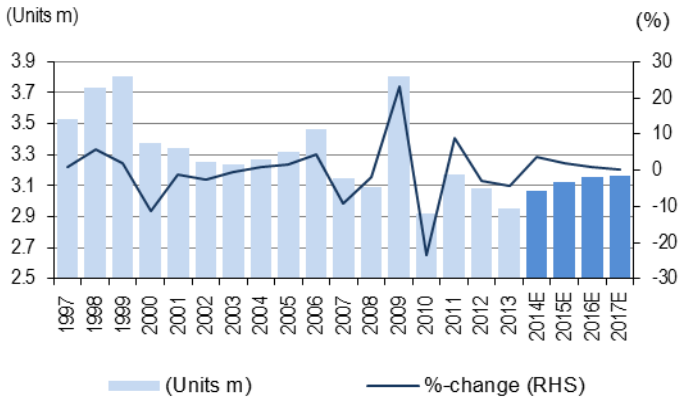
Germany has relatively strong macro-economic fundamentals in the European context, with GDP growing at 0.5% in 2013, vs. a 0.4% decline in the Eurozone. GDP qoq growth accelerated from 0.4% in 4Q13 to 0.8% in 1Q14, supporting the forecast of an acceleration to 1.7% in FY14E and 2015E. This, together with a healthy labour market and rising disposable income should support a recovery in car sales. After two years of decline, the German car market is therefore set to grow again in FY14E, by 3.7% to 3.06m units.

Germany – monthly SAAR[1] vs. trend (Oct'08-Apr'14)



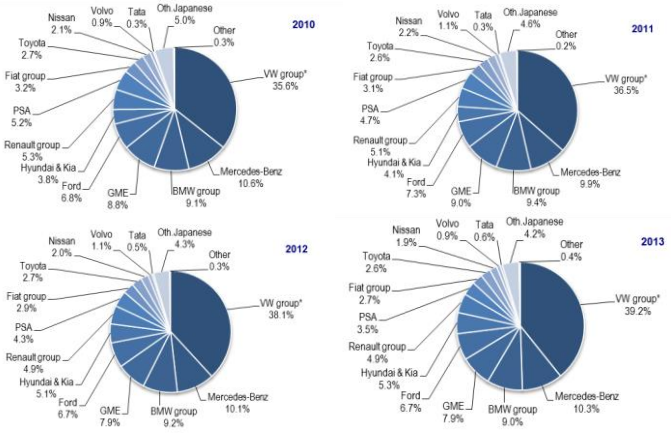
(1) SAAR according to LMC Automotive. Source: KFBA, LMC Automotive and CGI calculations

Germany – pc registrations (1997-2017E)



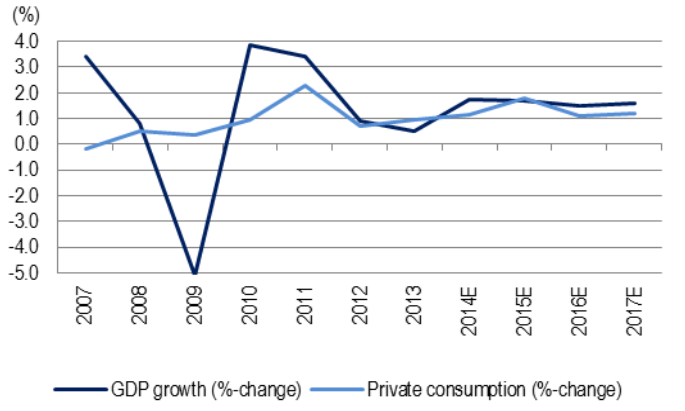
Source: KFBA, LMC Automotive and CGI estimates

Germany – pc market shares (2010-13)



(*) VW group incl. Porsche. Source: KFBA and CGI calculations

Germany – real GDP and priv. consumption (2007-17E)



Source: Oxford Economics and CGI estimates

France

+5.8% in April

+3.7% in YTD

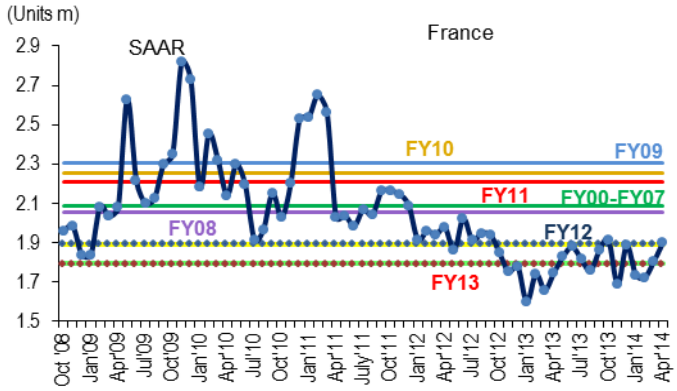
In April, French car registrations increased 5.8% yoy to 167.0k units, after a 5.4% increase in March and 1.4% decline in February, resulting in a 3.7% increase to 613.6k units YTD. This follows a 5.7% decline to 1.79m units in FY13, the fourth year of negative growth.

In April, underlying demand continued to improve to a SAAR of 1.90m, up 5.4% from March's 1.80m and thus almost in line with October's 1.91m, the strongest month in 2013. Indeed, so far in 2014, the market has been running at a SAAR of 1.80m, only 0.4% below FY13's 2.95m and 14.0% below the pre-crisis 2000-07 level of 2.09m.

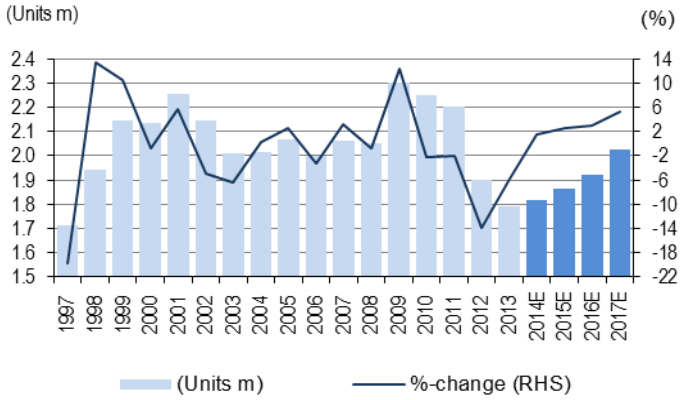
+1.5% in FY14E

France's gradual recovery from recession remains painfully slow, as GDP growth stalled again in 1Q14, after qoq growth rates of -0.1% in 3Q13 and +0.2% in 4Q14. An expected return to moderate economic growth to around 1% in FY14E should also lead to a moderate recovery in the car market. However, downside risks and challenges persist; they include an unemployment rate above 10% and subdued consumer confidence, though the latter has improved recently somewhat from extremely depressed levels in mid-2013. Assuming only a moderate improvement of the SAAR during the rest of 2014E, the French pc market is heading for a 1.5% increase to 1.82m in FY14E.

France – monthly SAAR[1] vs. trend (Oct'08-Apr'14)

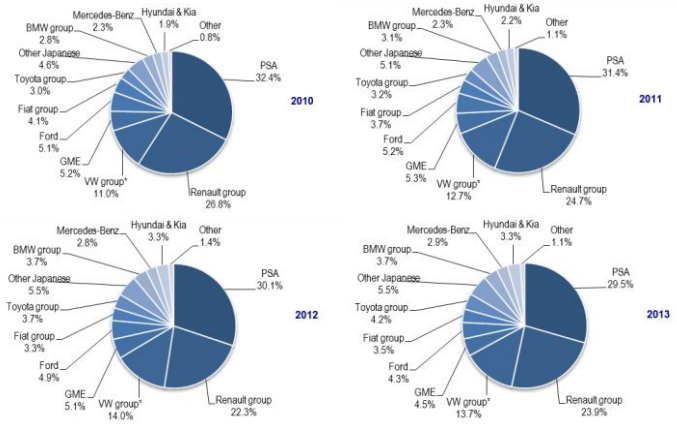


France – pc registrations (1997-2017E)

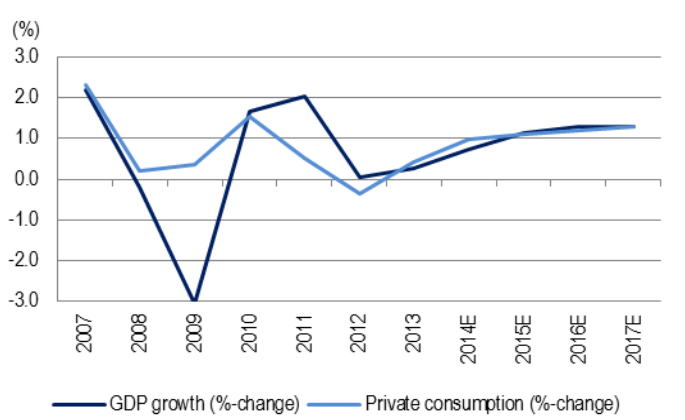


(1) SAAR according to calculations by LMC Automotive. Source: CCFA, LMC Automotive and Source: CCFA, LMC Automotive and CGI estimates
CGI calculations

France – pc market shares (2010-13)



France – real GDP and priv. consumption (2007-17E)



(*) VW group incl. Porsche. Source: CCFA and CGI calculations

Source: Oxford Economics and CGI estimates

Italy

+1.9% in April

+5.8% in YTD

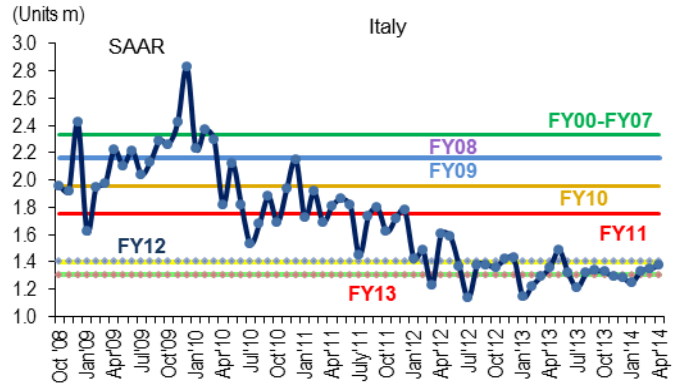
In April, Italian car registrations increased 1.9% yoy to 119.1k units, after 5.0% in March and 8.6% in February, resulting in a 5.0% yoy increase to 496.3k units YTD, from an exceedingly weak 2013. This follows a 7.4% decline to 1.30m in FY13, the sixth year of decline. The gradual improvement in underlying demand seen during February-April has remained slow. Indeed, the YTD average SAAR of 1.33m was just 1.7% better than FY13's 1.30m and remained 43% below the 2.34m long-term pre-crisis trend.

Italy's macro-economic situation has remained dismal as real GDP contracted another 1.9% in 2013, after -2.6% in FY12. The recent performance has remained patchy, while in 4Q13, GDP expanded for the first time since 2Q11, by 0.1% qoq, it shrank again, by 0.1% in 1Q14. With the economy trapped in a vicious circle of austerity, growing unemployment (currently just a shade under 13%) and lack of domestic demand, the macro-economic outlook remains bleak, with an only anaemic GDP growth of some 0.5% in 2014E, driven by a pick-up in external demand. Italy's continuing economic woes have been exacerbated by continuing political instability. An increase in VAT by 1%-point to 22% from October 1st should extend the decline in private consumption into 2014E, though has failed to prevent the inflation from falling well below 1%.

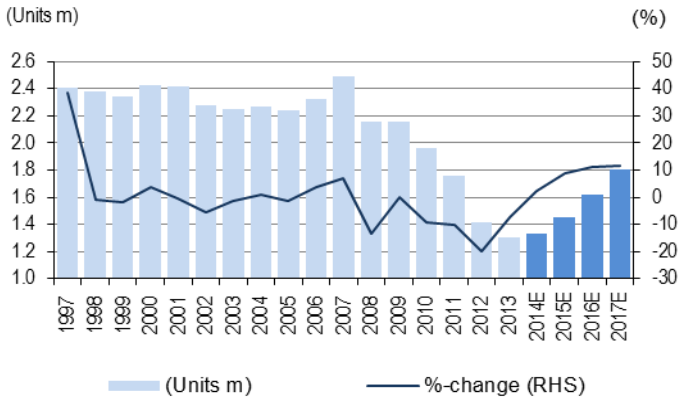
+2.2% in FY14E

We continue to expect that the recovery of the Italian car market will be drawn out. Indeed, assuming an only moderate improvement in underlying demand, the Italian car market is set to grow 2.2% to 1.34m in FY14E and accelerate to 9.1% and 1.45m in 2015E. Our forecast implies that 2014E would be the first year with growth after six consecutive years of decline. In view of the considerably pent-up demand that has led to a considerably ageing of the car parc, car demand should react fairly quickly to any marked economic improvement.

Italy – monthly SAAR[1] vs. trend (Oct'08-Apr'14)

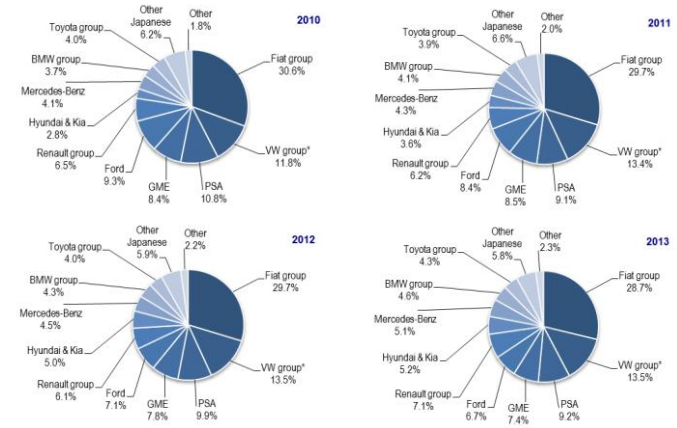


Italy – pc registrations (1997-2017E)

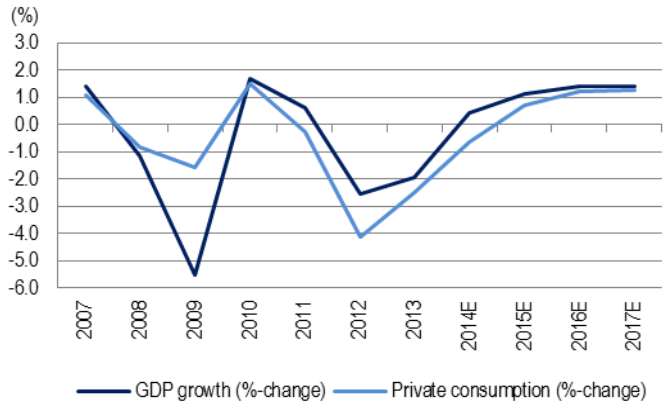


(1) SAAR according to calculations by LMC Automotive. Source: ANFIA, UNRAE, LMC Automotive Source: ANFIA, UNRAE, LMC Automotive and CGI estimates and CGI calculations

Italy – pc market shares (2010-13)



Italy – real GDP and priv. consumption (2007-17E)



(*)VW group incl. Porsche. Source: Anfia and CGI calculations

Source: Oxford Economics and CGI estimates

Spain

+28.7% in April

+16.2% in YTD

In April, the Spanish passenger car market advanced 28.7% yoy to 80.2k units, after increases of 10.0% and 17.8% in March and February, resulting in a 16.2% yoy increase to 282.3k units YTD. The improvement in underlying demand continued in April, when the SAAR was 0.88m, up 13.1% mom, from March's 0.78m and the highest level since May 2011 (0.89m). Although YTD's SAAR of 0.78m was 7.9% up from FY13's 0.72m, it remained 47% below the 2000-07 level of 1.48m units.

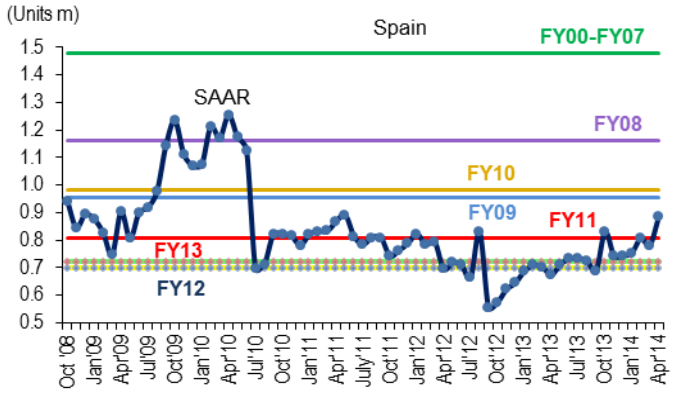
Government incentive scheme

The relative strength of the Spanish car market in YTD 2014 and FY13 has been due to the PIVE scrappage scheme that was first announced and introduced in October 2012 and has so far been extended four times. The purchase price of a LV is being discounted by EUR 2k, as the government's EUR 1k subsidy is matched by the car manufacturers, when a 10-year old vehicle is being scrapped.

+11.9% in FY14E

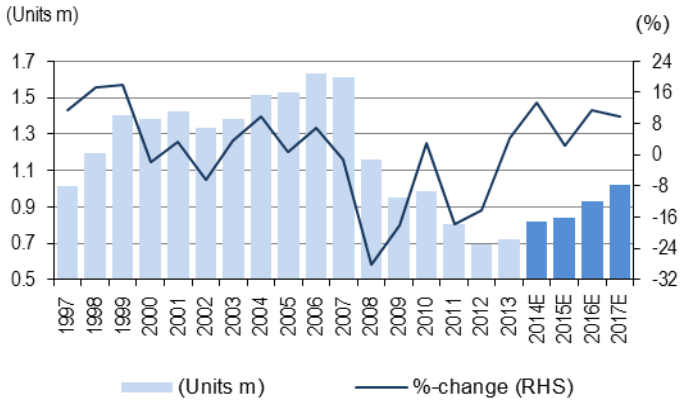
The macroeconomic outlook for Spain has continued to improve somewhat with GDP growth accelerating to 0.4% qoq in 1Q14, from 0.2% in 4Q13 and 0.1% in 3Q13 and consumer confidence steadily improving since mid-2012. After a 1.2% correction in FY13, real GDP is set to grow by close to 1.0% in FY14E, driven by external demand and supported by improved financial conditions. However, unemployment, currently at 26% should remain a drag for years to come. We understand that the Spanish government plans to keep extending the PIVE scheme until underlying demand has stabilised. On this basis, the Spanish car market is set to grow 11.9% to 0.81m in FY14E, which is better than the previously expected 7.7% to 0.78m. An ageing car parc and positive demographics should help the pace of recovery, once the economic recovery takes hold.

Spain – monthly SAAR[1] vs. trend (Oct'08-Apr'14)



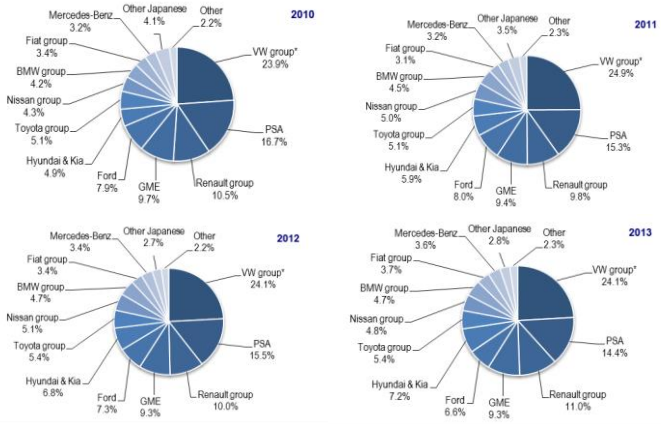
(1) SAAR according to calculations by LMC Automotive. Source: ANFAC, LMC Automotive and CGI calculations

Spain – pc registrations (1997-2017E)



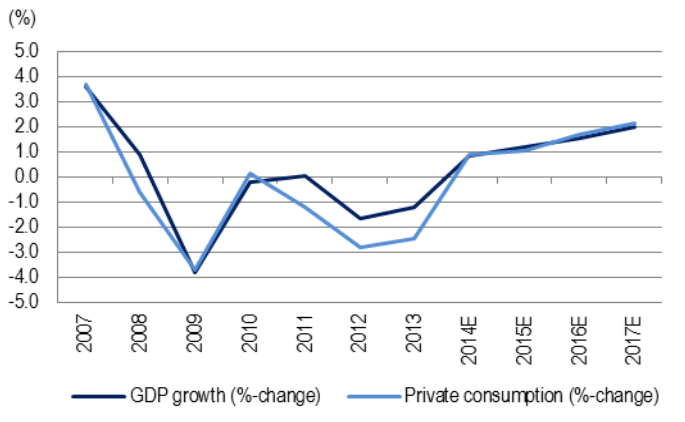
Source: ANFAC, LMC Automotive and CGI estimates

Spain – pc market by OEM (2010-13)



(*) VW group incl. Porsche. Source: ANFAC and CGI calculations

Spain – real GDP and priv. consumption (2007-17E)



Source: Oxford Economics and CGI estimates

UK

+8.2% in April

+12.5% in YTD

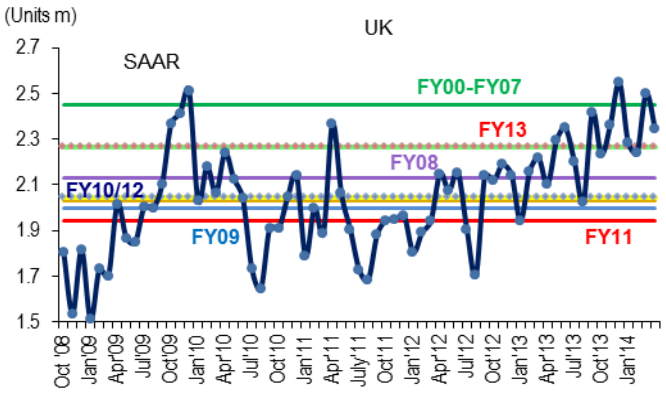
In April, UK car registrations advanced 8.2% yoy to 176.8k units, after a very strong March that is one of the two plate-change months, when registrations advanced 17.7% yoy to 464.8k units. YTD, the UK market has been up 12.5% yoy at 0.86m units. Driven by pent-up demand, easy credit, aggressive marketing and an accelerating economic recovery, the UK market has been growing for more than two years and been supported by private demand that in YTD was up 14.7% yoy at a 49.9% share of the market, after a 15.6% increase in FY13. Indeed, more than 80% of current and prospective car purchases are financed, according to a recent study by Lloyds Banking group, compared to 50% before the recession. Further supporting factors have been a falling savings ratio, windfall from refund claims made against miss-sold PPIs and OEMs redirecting vehicles from a sluggish rest of W Europe.

In April, underlying demand weakened somewhat to a SAAR of 2.35m, down 6% mom, from 2.50m, the strongest March since 2004. YTD's running rate of 2.34m was 3.5% up on FY13's 2.26m and only 4.2% below the long-term pre-crisis average of 2.45m units.

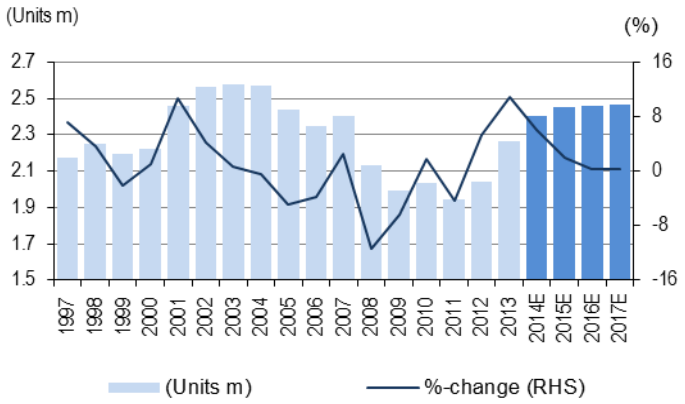
+6.0% in FY14E

The UK's economic recovery has gained momentum and broadened from the narrow base of private consumption and the housing market; GDP growth is set to accelerate from 1.9% in 2013 to close to 3.0% in 2014E. For FY14E, we therefore expect that the car market will grow another 6.0% to 2.40m, after FY13's 10.8%. However, from 2015E onwards, growth in the car market is expected to fizzle out, because the Bank of England is likely to start gradually raising interest rates rather earlier than later and OEMs are expected to redirect their product to the recovering rest of W Europe.

UK – monthly SAAR[1] vs. trend (Oct'08-Apr'14)



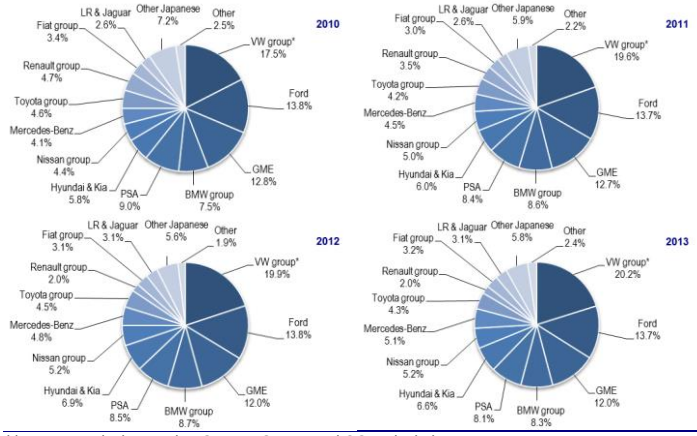
UK – pc registrations (1996-2017E)



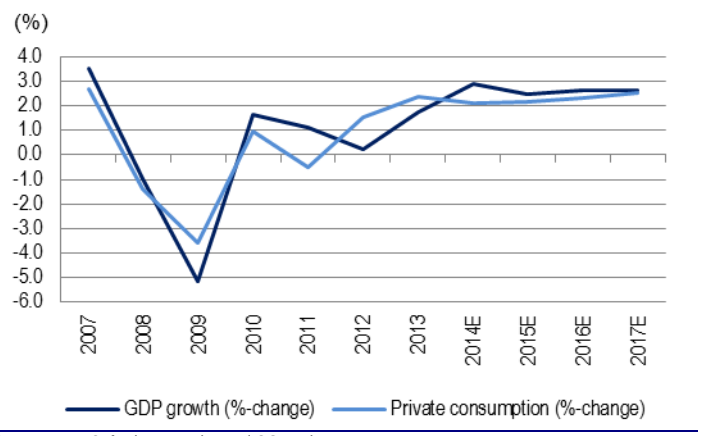
(1) SAAR according to calculations by LMC Automotive. Source: SMMT, LMC Automotive and CGI calculations

Source: SMMT, LMC Automotive and CGI estimates

UK – pc market by OEM (2010-13)



UK – real GDP and priv. consumption (2007-17E)



(*) VW group incl. Porsche. Source: SMMT and CGI calculations

Source: IMF, Oxford Economics and CGI estimates

Japan pc market

-5.1% in April

+15.9% in YTD

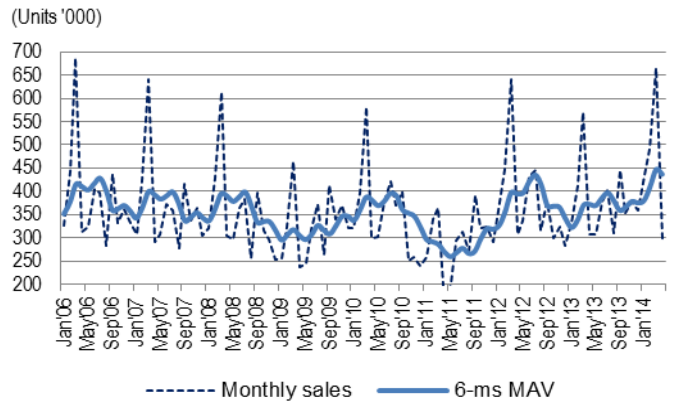
As expected, the increase in consumption tax from 5% to 8% at the beginning of the month led to a sharp decline in April vehicle sales: by 5.1% to 292.8k passenger cars and 5.2% to 338.3k LVs. This follows a strong 1Q14, when pre-buying had boosted sales of passenger cars 20.9% yoy to 1.59m units and those of LVs 23.1% to 1.82m. YTD the markets were up 15.9% to 1.88m pcs and 16.2% to 2.14m LVs. In FY13, the Japanese automotive markets were flat (-0.2%) at 4.56m units and (-0.3%) 5.29m units respectively as a resurging consumer confidence and private demand driven by the fiscal and monetary stimulus of the initial stage of 'Abenomics' acted as supports, counteracting the pay-back following the expiry of an eco-car subsidy in 3Q12.

In April, underlying LV demand fell to a SAAR of 5.14m units/annum, down 16% mom from March's 6.13m and 18% from 1Q14's 6.24m. The April drop in SAAR was mitigated by strong minicar sales that actually increased 5.3 % yoy, a reduction in the vehicle puchase tax (from 5% to 3%) and dealerships' aggressive marketing.

-0.3% in FY14E

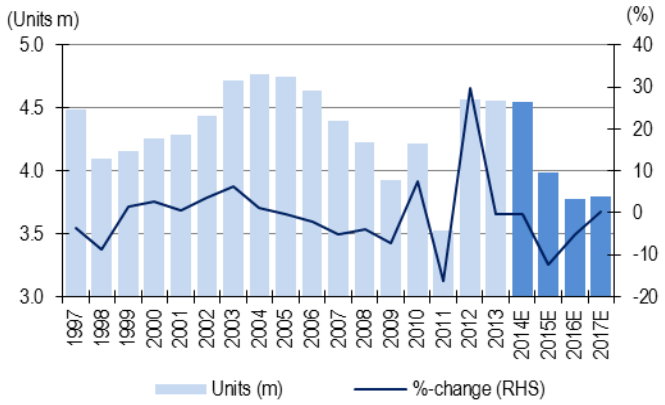
In view of the strong start of the year, FY14E is set to become another strong year with a flat (-0.3%) passenger car market at 4.55m units. The severity of the expected payback in 2015E-16E will be determined by political decisions, including further tax increases and the degree of the medium-term success of the highly ambitious economic policy, including restructuring. However, there should be considerable swings in monthly and quarterly sales as planned tax increases are expected to lead to periods of pre-buying and pay-back: the mini car tax is due to go up in April 2015 and the consumption tax is set to rise from 8% to 10% in October 2015.

Japan – monthly pc registrations (Jan'06-Apr'14)



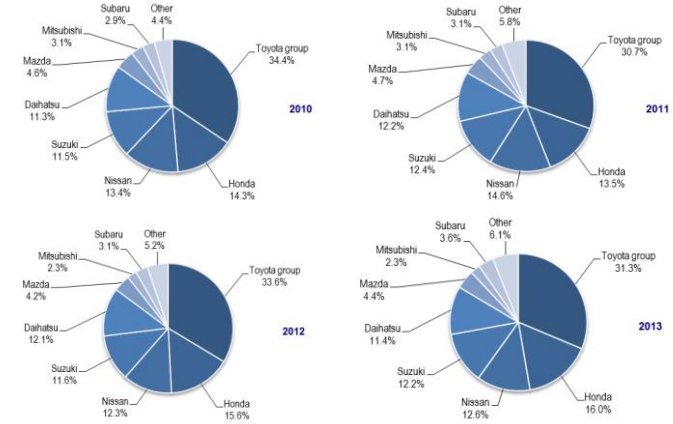
Source: JAMA and CGI calculations

Japan – pc market (1997-2017E)



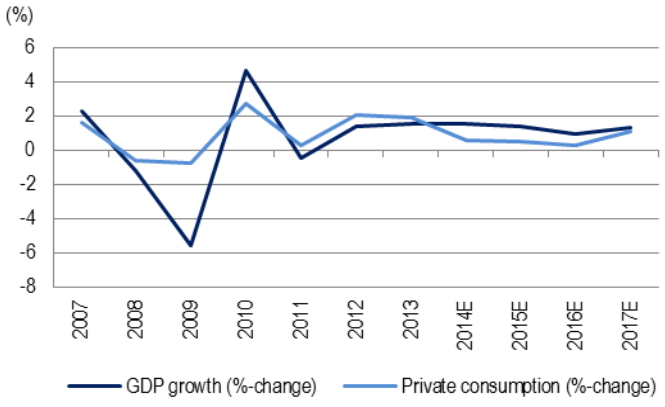
Source: JAMA, LMC Automotive and CGI estimates

Japan – pc market shares (2010-13)



Source: JAMA and CGI calculations

Japan – real GDP and private consumption (2007-17E)



Source: Oxford Economics and CGI estimates

China LV market

+9.5% in April

+9.4% in YTD

In April, Chinese LV sales increased 9.5% yoy to 1.97m units, after increases of 9.4% in March and 17.0% in February, resulting in a 9.4% yoy increase to 7.89m units YTD. LMCA estimates that underlying demand (SAAR) was 23.2m in April and 22.9m in YTD, both just a shade below a strong 4Q13. The strength of the market in the past six months has been greatly due to 'panic-buying', as consumers pull forward car purchases in fear that many cities will soon begin to impose restrictions on vehicle sales in order to fight pollution and traffic gridlock. The best performing segments have been SUVs, MPVs and luxury cars.

Recent data, including GDP growth of 7.4% in 1Q14, point towards an economic slow-down with GDP growth of well below 7.5% in FY14E, after 7.7% in FY13, that together with weaning the economy off government-led investments and rebalancing it towards private consumption and services form the corner stone of the government's economic policy. However, economic observers increasingly doubt the government's resolve to stick to the three principles/parts of the 'Likonomics' strategy of no stimulus, de-leveraging and structural reform. Indeed, the financial risks have also risen sharply, and include excessive borrowing by local and provincial authorities, housing bubbles and growth in shadow banking. Avoiding a hard landing and preventing a financial crisis have become the daunting simultaneous challenges for the regulators.

+10.8% in FY14E

Following a stronger than previously expected 13.9% increase to 21.88m LVs in 2013, growth is expected to slow moderately to 10.8% and 24.25m units in FY14E, taking into consideration factors, such as considerable pent-up demand, a further decline in pricing and also an increase in restrictions to car buying in highly polluted cities. The relatively small city of Hangzhou (2.5m inhabitants) has been the latest municipality to announce restrictions to car purchases, following the example of five mostly considerably larger cities Shanghai (14.4m), Beijing (11.5m), Tianjin (7.5m), Guangzhou (8.5m) and Guiyang (2.9m). The following six cities are likely to implement restrictions: Shijiazhuang, Qingdao, Nanjing, Wuhan, Chongqing and Chengdu.

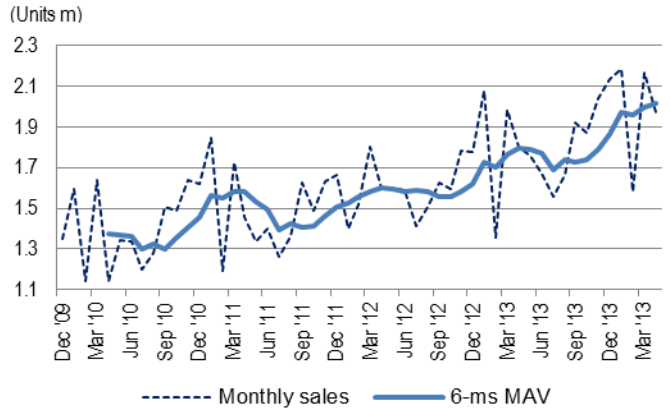
Long-term trends intact

The Chinese LV market is expected to grow at a CAGR of 8.1% in 2013-2018E. In this period, the economy is also expected to develop private consumption as a growth engine. The expected long-term growth in the LV market should be supported by vehicle density growing in tandem with GDP/capita, rising urbanisation (from 52% in 2012) and a growing middle class. A growing customer base should be spreading demand inland from Tier 1 regions and the coastal areas. (See charts on p.16.)

Premium segment continues to outperform

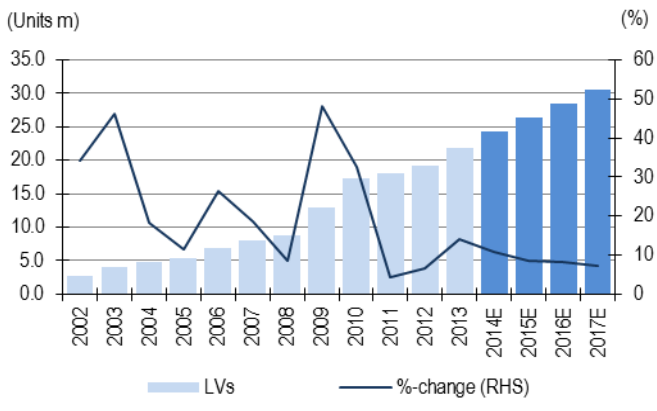
The premium segment grew from 111k units in 2005 to 1.54m in 2013, implying a CAGR of 39%, compared to 19% for the total LV market. The medium-term outlook remains favourable as the premium segment is expected to continue to grow considerably faster than the total market. The German premium brands increased sales 18.5% to 1.16m units in FY13 and 26.1% yoy to 425.4k units YTD. (See p. 16.)

China – monthly LV sales[1] (Dec'09-Apr'14)



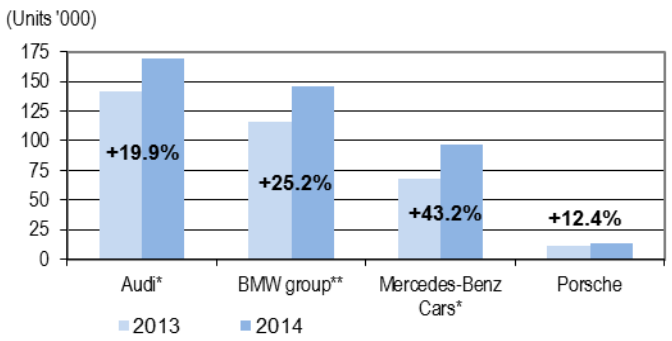
(1) incl. imports Source: LMC Automotive and CGI calculations

China – LV sales (2002-17E)



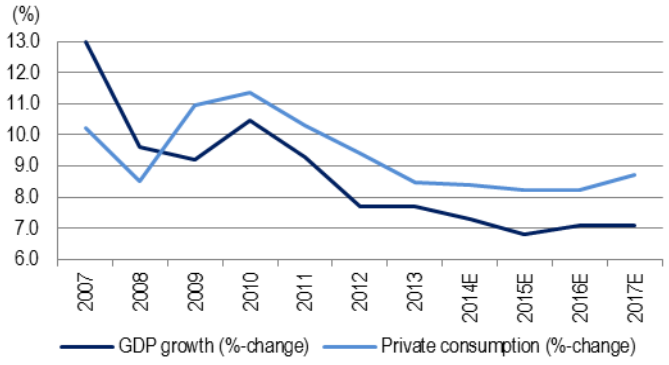
Source: LMC Automotive and CGI estimates

German premium brands (Jan-Apr 2013 & 2014)



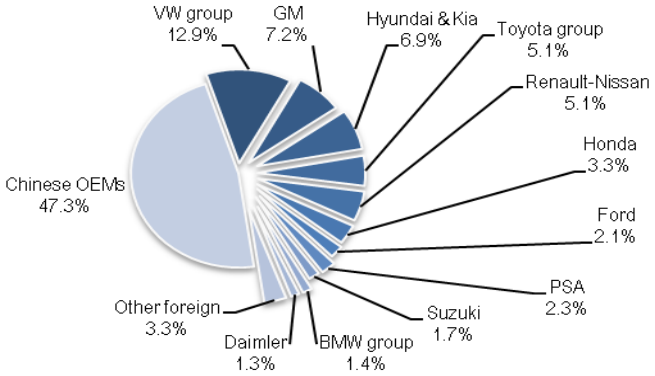
(*) Incl. Hong Kong. (**) BMW and Mini only. Source: Company data and CGI calculations

China – real GDP and private consumption (2007-17E)



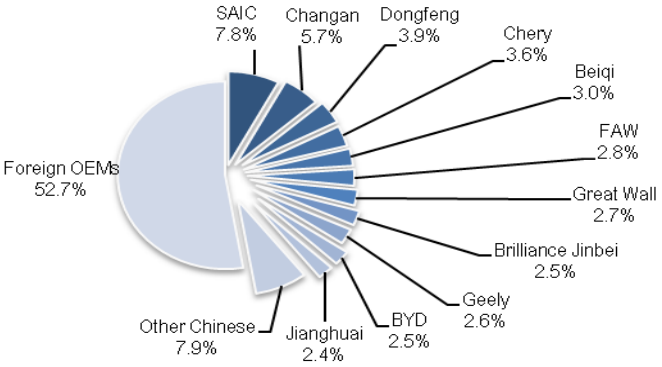
Source: Oxford Economics and CGI estimates

China – LV market by foreign OEM (2011)



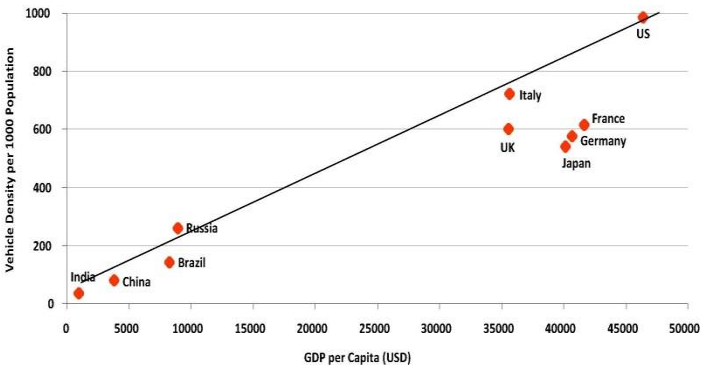
Source: LMC Automotive and CGI calculations

China – LV market by domestic OEM (2011)



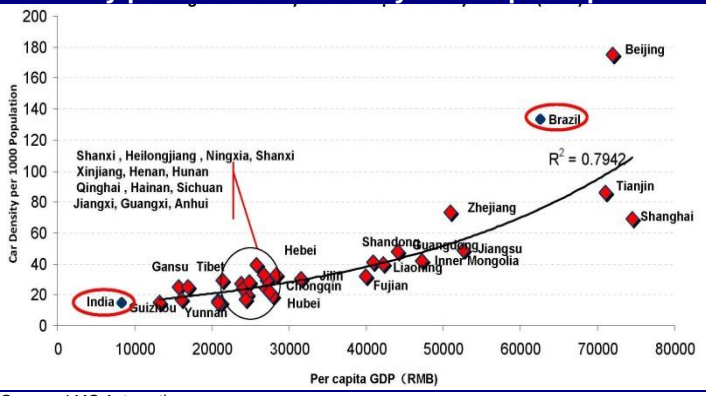
Source: LMC Automotive and CGI calculations

China – vehicle density & GDP per capita (2010)



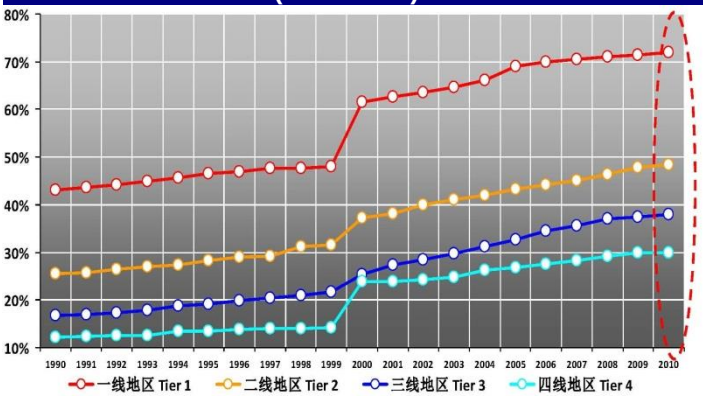
Source: LMC Automotive

China by province – car density & GDP per capita



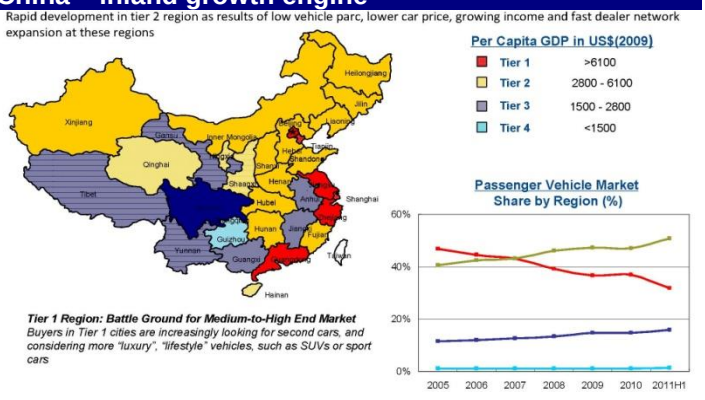
Source: LMC Automotive

China – urbanisation (1990-2010)



Source: LMC Automotive

China – inland growth engine



Source: LMC Automotive

Brazil pc market

-14.3% in April

-7.6% in YTD

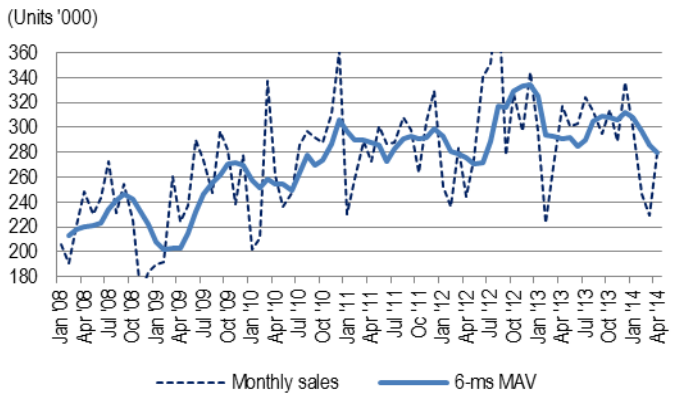
In April, Brazilian car sales declined 14.3% yoy to 211.2k units, after an 18.3% decline in March and a 6.5% increase in February, resulting in a 7.6% yoy decline to 794.5k units YTD. This follows a 3.1% decline to 2.76m cars in FY13, the first decline in annual sales in a decade. Brazilian car sales have suffered from rising interest rates and an already high level of consumer debt, overcompensating any benefits from the fiscal stimuli introduced since June 2012 (including a temporary IPI tax cut and a permanent reduction of the IOF tax on financial transaction (including auto financing)). At the beginning of 2014, the IPI tax was raised by 2-4%-points (depending on the size of the vehicle), and the next hike by another 2-3%-points is due in July.

Private consumption that had been driving the economy since 2007 and still outperformed in 2012, advancing 3.2% vs. GDP's 1.0%, has slowed dramatically in FY13, to just 2.3%, in line with GDP growth. Going forward, private consumption is expected to broadly track GDP growth the short- and medium-term outlook for which has deteriorated and includes a deceleration in FY14E. Over recent years, the industrial and commodities sectors have been affected by an overvalued currency, rising labour costs, complex taxes, poor infrastructure and excessive bureaucracy. .

-5.6% in FY14E

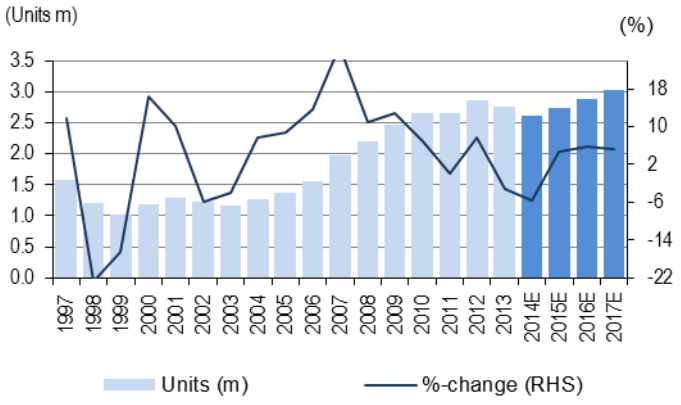
In the near term, tighter credit conditions, shrinking purchasing power (due to high inflation and a weakening currency) and falling consumer confidence should continue to have a negative impact on car sales. Indeed, in April the benchmark rate was raised again by 25bpts to 11%, with more hikes likely. In addition, the introduction of new safety rules (requiring ABS brakes and airbags) on 1/1/2014 is estimated to reduce the affordability of cars by some 4-8%. For FY14E, we expect that the car market will shrink 5.6% to 2.61m units, this is worse than our previous forecast of 2.81m (+1.8%).

Brazil – monthly pc registrations (Jan'08-Apr'14)



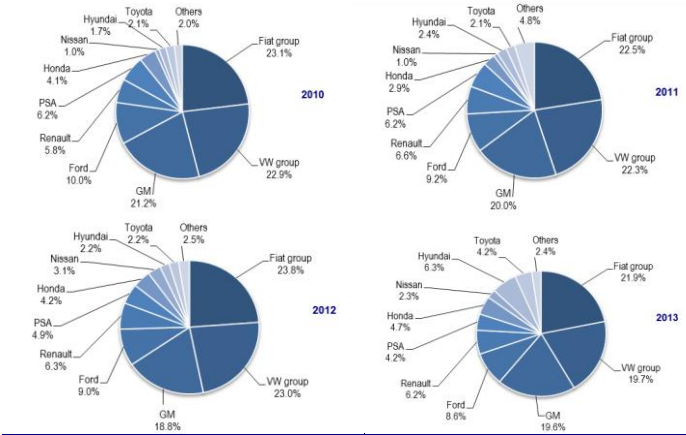
Source: ANFAVEA and CGI calculations

Brazil – pc market (1997-2017E)



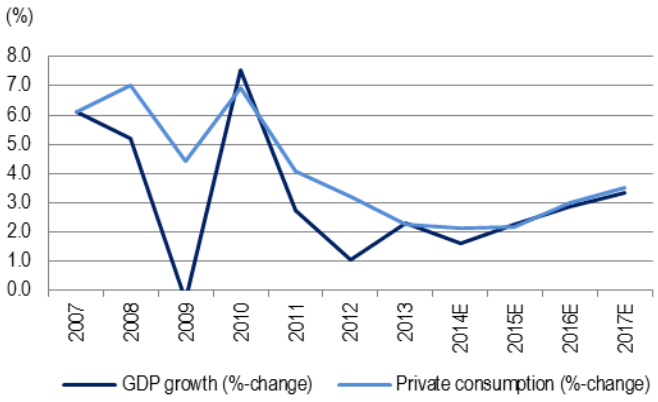
Source: ANFAVEA, LMC Automotive and CGI estimates

Brazil – pc market shares (2010-13)



Source: ANFAVEA and CGI calculations

Brazil – real GDP and private consumption (2007-17E)



Source: Oxford Economics and CGI estimates

Russia LV market

-7.6% in April

In April, Russian LV sales declined 7.6% yoy to 226.5k units, after yoy declines of 0.4% and 2.0% in March and February, resulting in a 3.8% decline to 0.83m units YTD.

-3.8% in YTD

Even before the full onset of the crisis in the Ukraine, the Russian economy was on a downward trajectory and had slowed dramatically: the real GDP growth rate fell from 3.4% in 2012 to 1.4% in FY13 and 0.9% in 1Q14. This is attributable to considerable structural problems at the core of the economy such as lack of internal investment and increasing capital flight, both caused by a bad business climate, lack of sufficient protection of property rights and rule of law. The GDP growth outlook has greatly deteriorated to 0.2% in FY14E and 1.4% in 2015E. Private consumption also decelerated sharply, from 6.7% in 2012 and to 5.5% in 2013. Higher interest rates and a weaker rouble have dampened consumer confidence and dramatically worsened the growth outlook for private consumption to 0.9% in FY14E and 1.1% in 2015E.

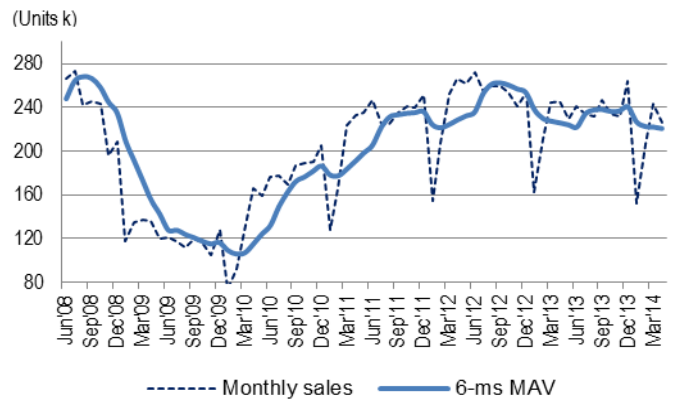
Deteriorating macro-economic outlook – greatly exacerbated by Ukraine crisis

Besides higher interest rates, the dramatic weakening of the rouble are the main negative factors affecting car sales. A weaker rouble (that has lost between 20-25% against major currencies) should sharply reduce the affordability of LVs in Russia as it is affecting 82% of vehicles. In 2013, 36% of LVs sold were imports and 46% foreign branded vehicles from local production that have a relatively low local content. Additional drawbacks include the government's recent announcement that they have scrapped plans to introduce a new car incentive scheme any time soon and the extension of the 'utilisation' tax to include locally produced cars since 1/1/2014.

-10.3% in FY14E

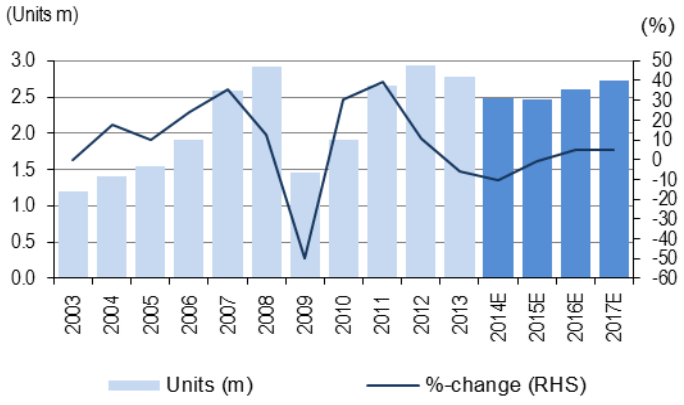
The Russian LV market is set for a decline of more than 10% to 2.49m units in FY14E and expected to slip another 0.6% to 2.47m in 2015E. There is hope for a 5.1% recovery to 2.60m in 2016E. This compares to our forecast of 2.82m (+1.6%) at the beginning of the year.

Russia – monthly LV sales[1] (Jun'08-Apr'14)



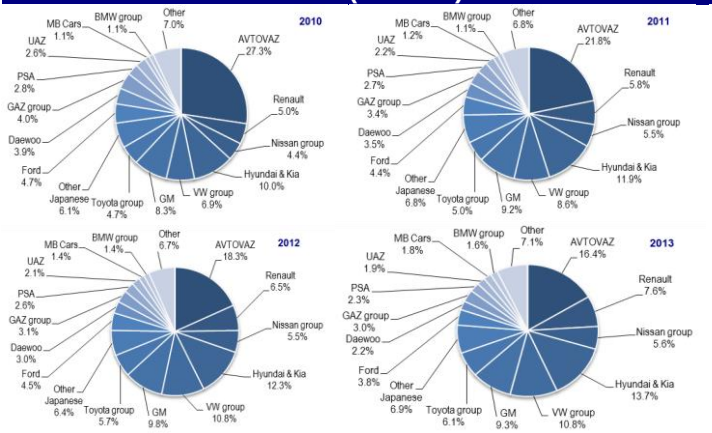
(1) LV sales = passenger cars and LCV. Source: AEB and CGI calculations

Russia – LV sales (2003-17E)



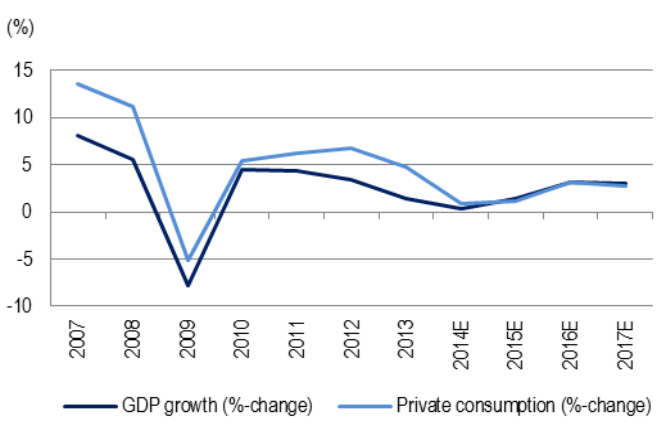
Source: AEB, LMC Automotive and CGI estimates

Russia – LV market shares (2010-13)



Source: AEB and CGI calculations

Russia – real GDP and private consumption (2007-17E)

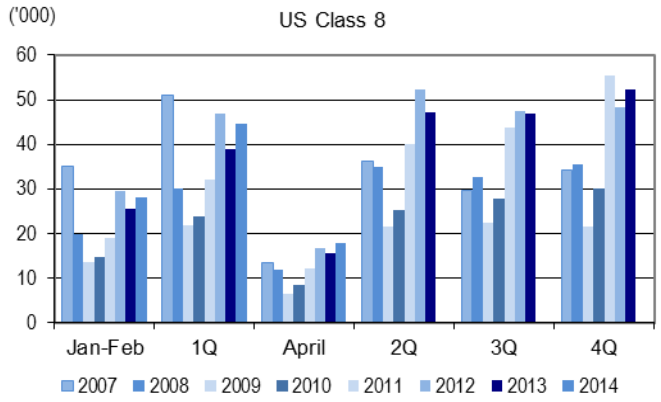


Source: Oxford Economics and CGI estimates

Demand trends for trucks

US medium & heavy truck market

US – Class 8 sales

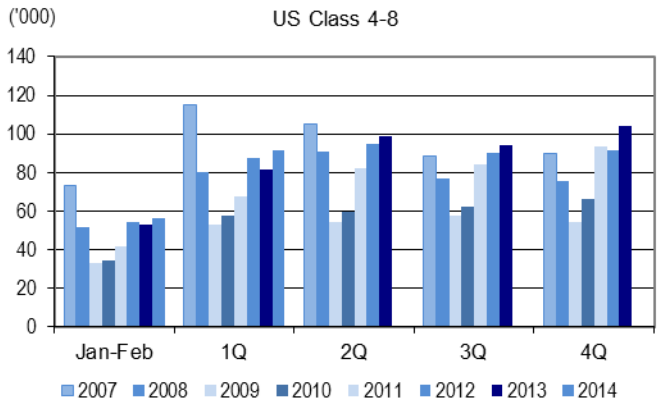


	1Q	April	2Q	3Q	4Q	FY
Units						
2009	21,832	6,664	21,625	22,423	21,625	94,798
2010	23,839	8,627	25,418	27,825	30,070	107,152
2011	31,978	12,173	40,110	43,907	55,430	171,425
2012	46,845	16,905	52,401	47,585	48,192	195,023
2013	38,828	15,660	47,064	46,788	52,242	184,922
2014	**44,566**	**17,781**	-	-	-	-
% change						
2010 yoy	9.2	29.5	17.5	24.1	39.1	13.0
2011 yoy	34.1	41.1	57.8	57.8	84.3	60.0
2012 yoy	46.5	38.9	30.6	8.4	-13.1	13.8
2013 yoy	-17.1	-7.4	-10.2	-1.7	8.4	-5.2
2013 yoy	**14.8**	**13.5**	-	-	-	-
2013 vs. 2007	-24.0	17.1	30.2	58.2	53.1	22.5
2014 vs. 2007	**-12.8**	**33.0**	-	-	-	-

Source: Automotive News Data Center, CGI calculations

Source: Automotive News Data Center, CGI calculations

US – Class 4-8 sales

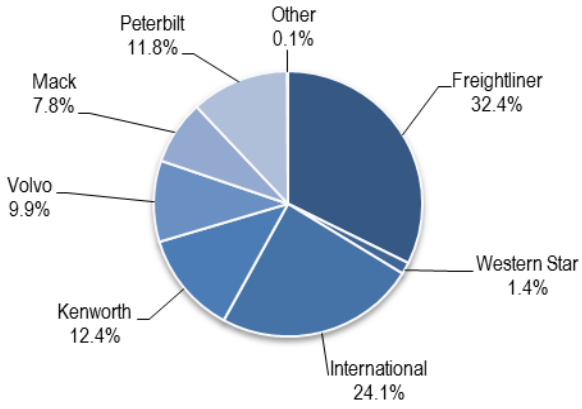


	1Q	Apri	2Q	3Q	4Q	FY
Units						
2009	53,023	17,612	54,423	57,666	54,423	227,726
2010	57,781	19,583	59,533	62,231	66,399	245,944
2011	67,399	25,728	82,416	84,409	93,768	327,992
2012	87,763	29,932	94,962	89,898	91,752	364,375
2013	81,254	32,888	98,680	94,150	104,073	378,157
2014	**91,432**	**38,279**	-	-	-	-
% change						
2010 yoy	9.0	11.2	9.4	7.9	22.0	8.0
2011 yoy	16.6	31.4	38.4	35.6	41.2	33.4
2012 yoy	30.2	16.3	15.2	6.5	-2.1	11.1
2013 yoy	-7.4	9.9	3.9	4.7	13.4	3.8
2014 yoy	**12.5**	**16.4**	-	-	-	-
2013 vs. 2007	-29.4	-10.0	-6.3	6.4	15.6	-5.2
2014 vs. 2007	**-20.5**	**4.8**	-	-	-	-

Source: Automotive News Data Center, CGI calculations

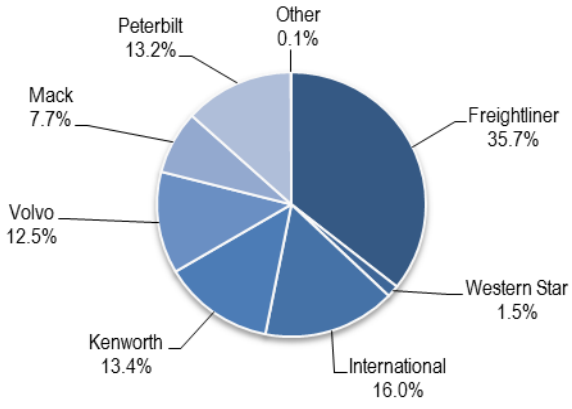
Source: Automotive News Data Center, CGI calculations

US – Class 8 sales by manufacturer (FY13)



Source: Automotive News Data Center, CGI calculations

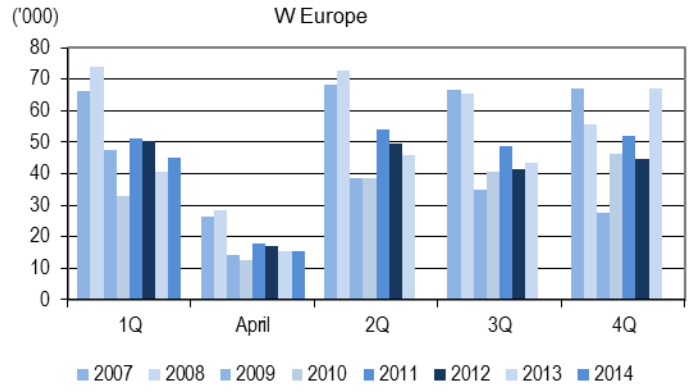
US – Class 8 sales by manufacturer (Jan-Apr'14)



Source: Automotive News Data Center, CGI calculations

Europe heavy truck markets

W Europe – truck registrations (>=16t)

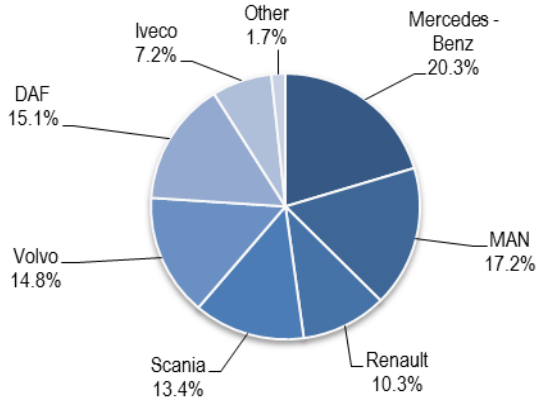


	1Q	April	2Q	3Q	4Q	FY
Units						
2009	47,599	14,322	38,466	34,862	27,669	148,596
2010	32,828	12,597	38,461	40,483	46,174	157,946
2011	50,998	17,837	53,938	48,692	52,099	205,727
2012	50,162	17,081	49,411	41,293	44,674	185,540
2013	40,649	15,610	46,000	43,529	66,956	197,508
2014	**44,891**	**15,417**	-	-	-	-
% change						
2010 yoy	-31.0	-12.0	0.0	16.1	66.9	6.3
2011 yoy	55.3	41.6	40.2	20.3	12.8	30.3
2012 yoy	-1.6	-4.2	-8.4	-15.2	-14.3	-9.8
2013 yoy	-19.0	-8.6	-6.9	5.4	49.9	6.5
2014 yoy	**10.4**	**-1.2**	-	-	-	-
2013 vs. 2008	-45.0	-45.2	-36.9	-33.3	20.4	-26.2
2014 vs. 2008	**-39.3**	**-45.9**	-	-	-	-

Source: ACEA, CGI calculations

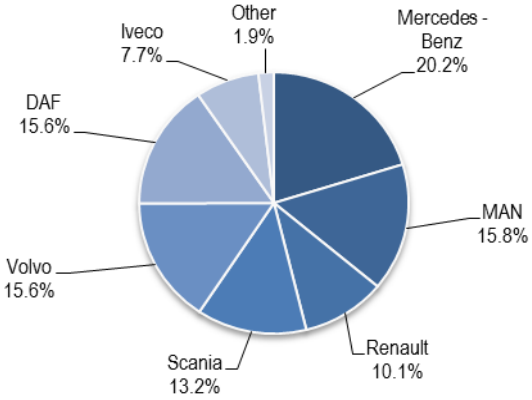
Source: ACEA, CGI calculations

W Europe – truck registrations by manufacturer (FY11)



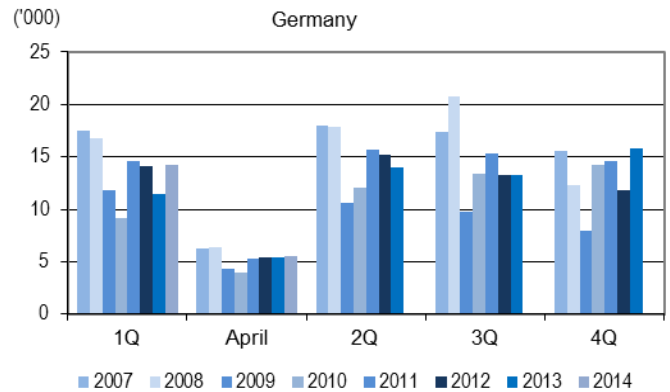
Source: Association Auxiliaire de l'Automobile, CGI calculations

W Europe – truck registrations by manufacturer (FY12)



Source: Association Auxiliaire de l'Automobile, CGI calculations

Germany – truck registrations (>=16t)

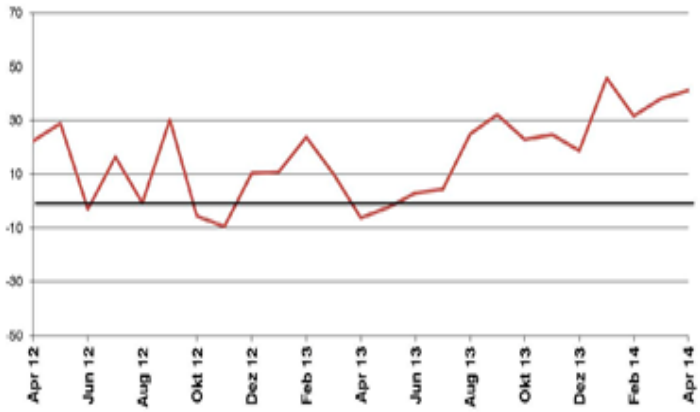


	1Q	April	2Q	3Q	4Q	FY
Units						
2009	11,878	4,279	10,653	9,725	7,943	40,199
2010	9,145	4,019	12,064	13,388	14,220	48,817
2011	14,577	5,283	15,718	15,358	14,560	60,213
2012	14,148	5,468	15,226	13,211	11,859	54,444
2013	11,432	5,357	14,038	13,310	15,796	54,576
2014	**14,287**	**5,566**	-	-	-	-
% change						
2010 yoy	-23.0	-6.1	13.2	37.7	79.0	21.4
2011 yoy	59.4	31.5	30.3	14.7	2.4	23.3
2012 yoy	-2.9	3.5	-3.1	-14.0	-18.6	-9.6
2013 yoy	-19.2	-2.0	-7.8	0.7	33.2	0.2
2014 yoy	**25.0**	**3.9**	-	-	-	-
2013 vs. 2008	-31.9	-15.9	-21.6	-35.7	27.9	-19.4
2014 vs. 2008	**-14.9**	**-12.6**	-	-	-	-

Source: ACEA, CGI calculations

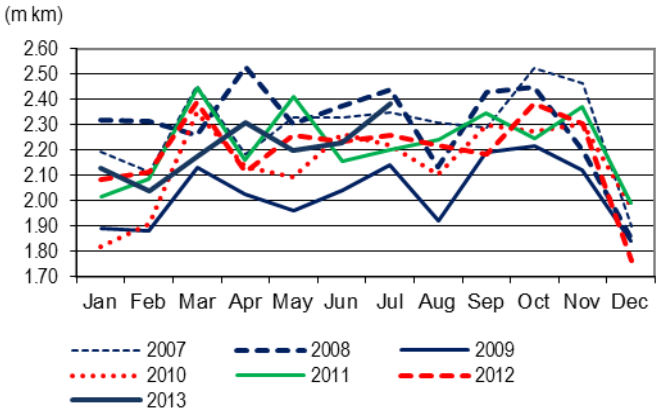
Source: ACEA, CGI calculations

SCI Logistics Barometer (Germany) (Apr'12-'14)



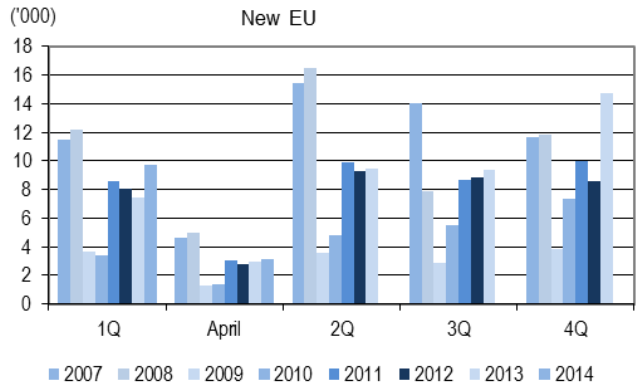
Business confidence indicator – transport and logistics industries in Germany. Source: www.sci.de

Toll Collect – Driven kms on German motorways



Source: Bundesamt für Güterverkehr

New EU[1] – truck registrations (>=16t)



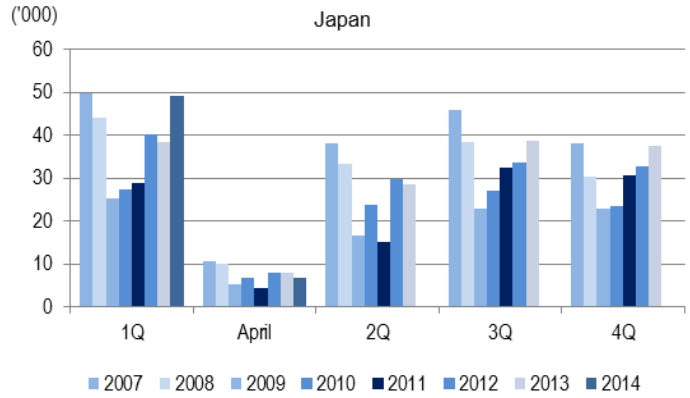
	1Q	April	2Q	3Q	4Q	FY
Units						
2009	3,647	1,254	3,546	2,872	3,843	13,908
2010	3,384	1,385	4,779	5,509	7,351	21,023
2011	8,594	3,028	9,912	8,693	10,016	37,215
2012	8,020	2,818	9,333	8,811	8,585	34,749
2013	7,468	2,981	9,432	9,397	14,771	41,005
2014	**9,727**	**3,129**	-	-	-	-
% change						
2010 yoy	-7.2	10.4	34.8	91.8	91.3	51.2
2011 yoy	154.0	118.6	107.4	57.8	36.3	77.0
2012 yoy	-6.7	-6.9	-5.8	1.4	-14.3	-6.6
2013 yoy	**-6.9**	**5.8**	1.1	6.7	72.1	18.0
2014 yoy	**30.2**	**5.0**	-	-	-	-
2013 vs. 2008	-38.9	-40.5	-42.7	19.7	25.1	-15.2
2014 vs. 2008	**-20.4**	**-37.6**	-	-	-	-

(1) New EU, mostly Central Europe and Baltic countries. Source: ACEA, CGI calculations

Source: ACEA, CGI calculations

Japan medium & heavy truck market

Japan – medium & heavy truck market (>3.5t)



	1Q	April	2Q	3Q	4Q	FY
Units						
2009	25,236	5,321	16,686	22,932	22,838	87,692
2010	27,512	6,603	23,701	27,029	23,455	101,697
2011	28,993	4,409	15,094	32,598	30,605	107,290
2012	40,273	8,007	29,714	33,645	32,727	136,359
2013	38,568	7,841	28,572	38,666	37,466	143,272
2014	**49,245**	**6,817**	-	-	-	-
% change						
2010 yoy	9.0	24.1	42.0	17.9	2.7	16.0
2011 yoy	5.4	-33.2	-36.3	20.6	30.5	5.5
2012 yoy	38.9	81.6	96.9	3.2	6.9	27.1
2013 yoy	-4.2	-2.1	-3.8	14.9	14.5	5.1
2014 yoy	**27.7**	**-13.1**	-	-	-	-
2013 vs. 2008	-12.9	-20.9	-14.4	0.2	23.0	-2.3
2014 vs. 2008	**11.3**	**-31.3**	-	-	-	-

Source: JAMA, CGI calculations

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