



# Creative Global Investments

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**Sabine CJ Blümel**

Automotive Research

**Creative Global  
Advisers (UK) LLP**

sblumel@cg-inv.com  
Tel +44 7785 301 588

**Creative Global  
Investments LLC**  
115 East 57th Street  
11th Floor  
New York, NY 10022  
Tel +1 212 939 7256

**Creative Global  
Investments/Europe**  
5, op der Heid  
L-1709 Senningerberg  
Luxembourg  
Tel +352 2625 8640

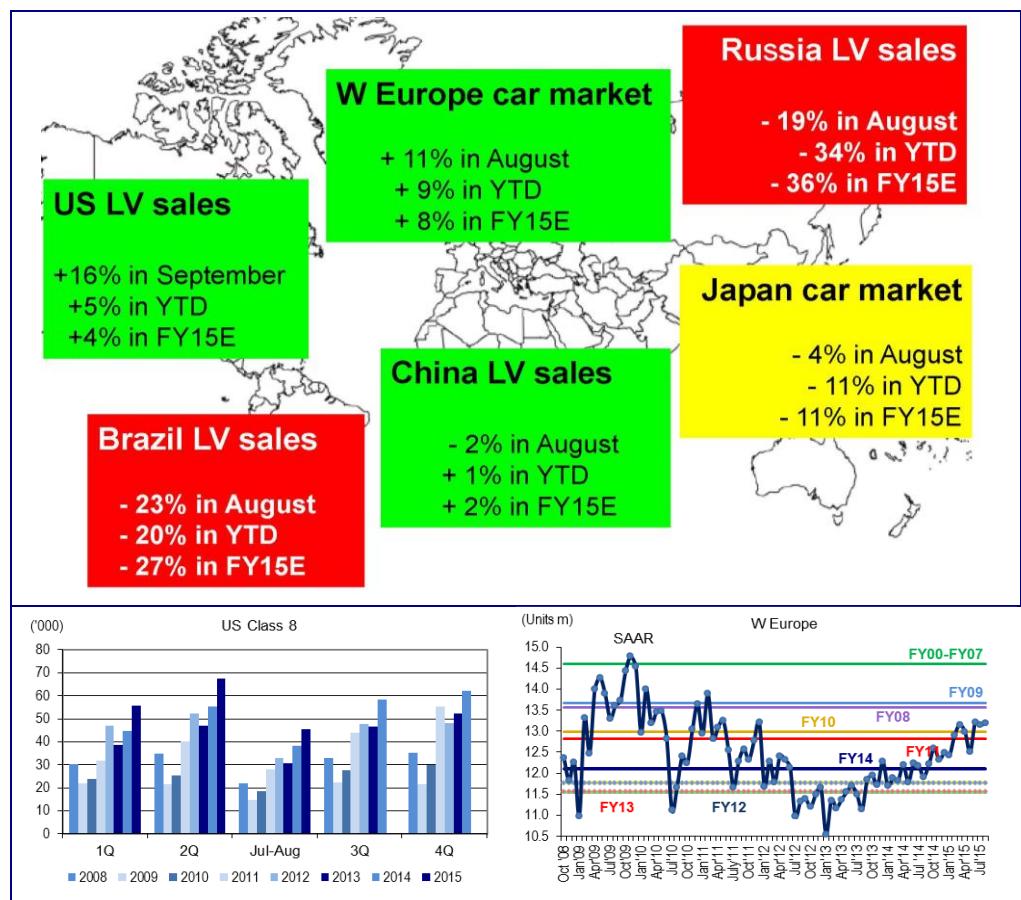
**Objectivity**  
**Integrity**  
**Creativity**

## Global Automotive Demand Atlas

September-October 2015 edition

### Global light vehicle markets

- 0% in August
- +1% in YTD
- +1% in FY15E



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## Global LV markets

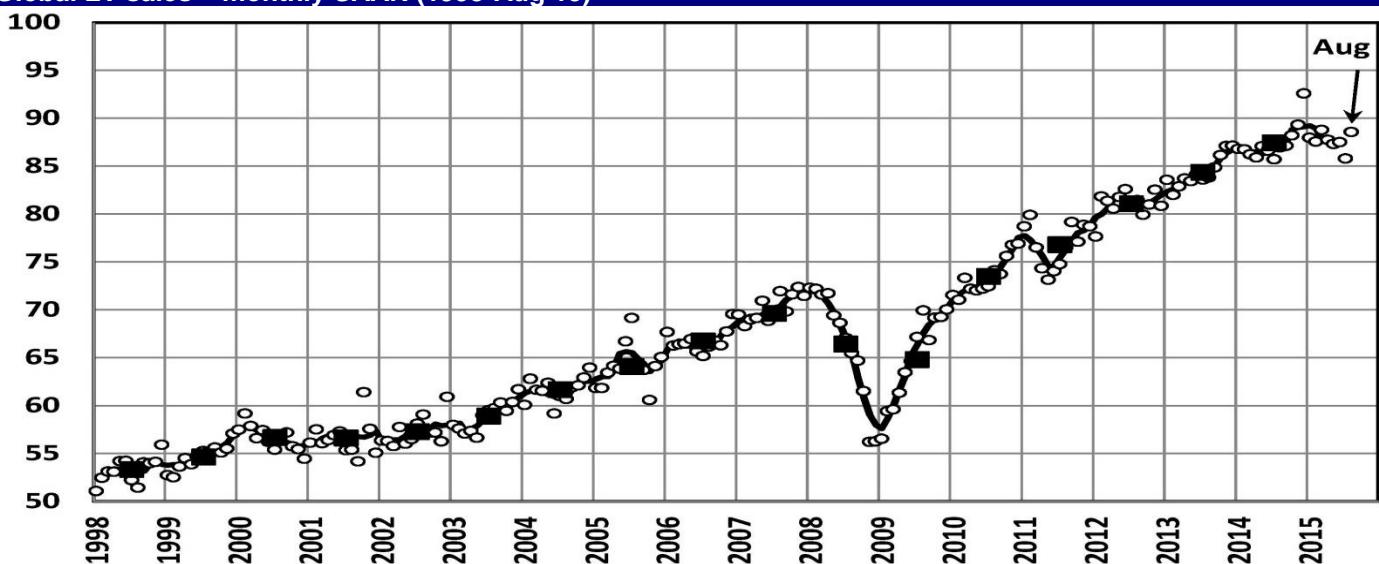
**-0.1% in August**

In August, global light vehicle sales dipped 0.1% yoy to 6.99m, after a 0.3% decline in July, resulting in a 0.9% increase to 57.09m YTD. LMC Automotive (LMCA) calculate that underlying demand strengthened again in August, with a SAAR (seasonally adjusted annualised rate) of 88.34 units/year, 3.5% up from 85.38m in July and 1.5% up from some 87m in May and June, but still below January's 89.4m, and 87.6m YTD..

**+0.7% in FY15E**

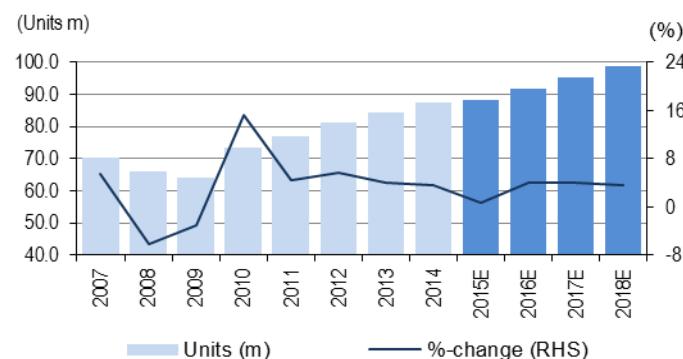
**For FY15E, we expect a global LV market of 88.1m, implying an increase by 0.7% or 0.6m.** This is a downgrade from the previous forecast of 89.0m and an implied increase by 1.7% or 1.5m. The FY15E growth rate is thus expected to be a fraction of FY14's 3.7% and FY13's 4.0%.

### Global LV sales – monthly SAAR (1998-Aug'15)



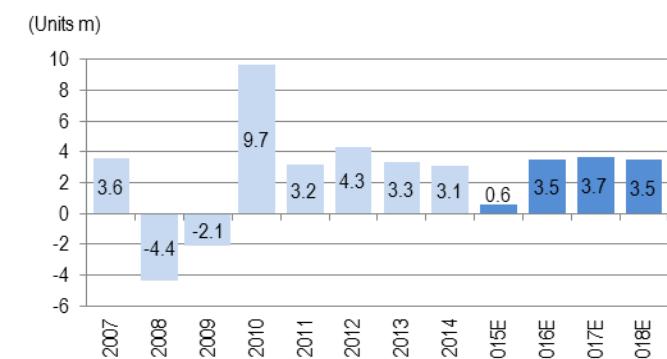
Source: LMC Automotive

### Global LV sales - (2007-2018E)



Source: LMC Automotive and CGI estimates

### Growth - global LV sales - (2007-2018E)



Source: LMC Automotive and CGI estimates

## US LV sales

### +15.8% in September

In September, US light vehicle sales increased 15.8% yoy to 1.44m units, after having dipped 0.5% in August, resulting in a 5.0% yoy increase to 13.03m YTD. Adjusted for the number of selling days (25 in Sep'15 & 24 in Sep'14 and 26 in Aug'15), the market was up 11.1% yoy and 4.9% mom in September and up 5.0% yoy in YTD. According to AN, the September SAAR of 18.2 units/year was up 1.6m yoy and 0.3m from 17.8m in August.

### Retail sales have driven recovery

Retail sales have been on average the dominant driver of the US car market since May 2012. In July, the retail SAAR of 14.2m was 0.3m below May's record level of 14.5m and up 0.1m yoy. Low gas prices have continued to fuel the outperformance of light trucks that advanced 8.2% in August and 9.5% in YTD, to 6.54m or 56.4% of total market. Sales of SUVs were up 10.3% in August and 12.2% YTD, at 4.19m or 36.1% of the market. The improving mix has resulted in a further increase in average transaction prices by 3.1% yoy to USD 32.9k in August, after having hit an all-time record of almost USD 34.4k in December. (See pp. 4-5.)

### Slow-down to 4.3% growth in 2015E

In FY15E, the LVs market is expected to grow 4.3% to 17.20m units, the highest level since 2000 and the first time exceeding 17m since 2001. Positive factors include continuing pent-up demand, the economic recovery, strong consumer confidence, and plunging gas prices. However, the LV market has become increasingly dependent on generous consumer credit conditions, with easy access and extended loan terms. The steady growth of the average term of loans and the rising share of loans with duration longer than 72 months is a growing concern and could hamper future sales growth.

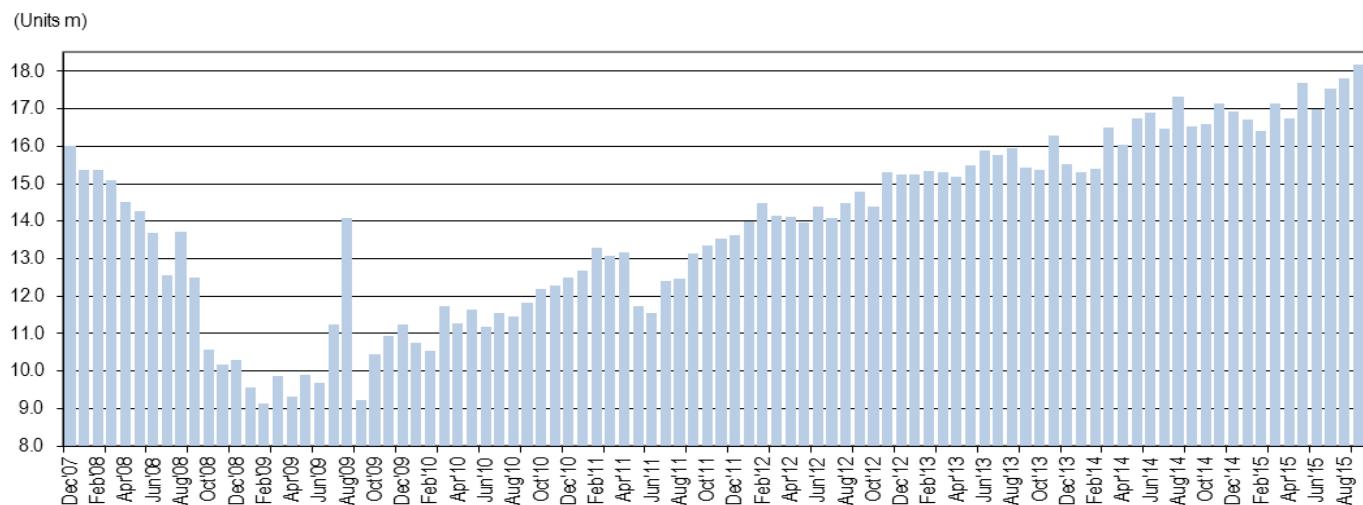
### Stabilisation from 2016E onwards

In 2016-18E, the US market is expected to stabilise at high levels, with annual growth rates of less than 1%; this is based on the assumption of GDP growing at an annual 2.7-2.8% and supporting factors such as replacement demand, growing household wealth, and new household creations.

### Big Four

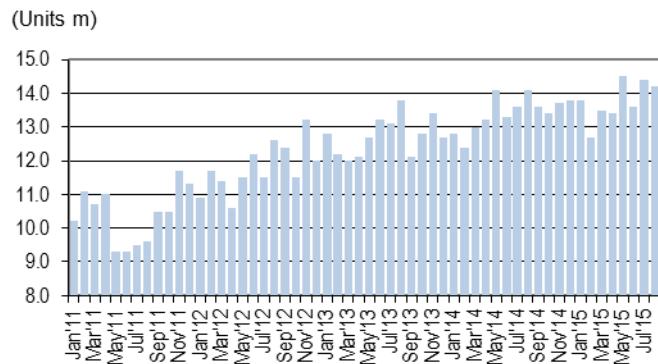
At the **GM group**, sales increased 12.5% in September, resulting in a 4.2% increase to 2.30m YTD or a 17.6% share. Sales at the **Ford group** increased 23.3% in September and 4.7% to 1.97m or 15.1% YTD, driven by the new F-150 pickup truck and crossovers. **Toyota's** group sales jumped 16.2% in September and 4.0% in YTD, to 1.87m or 14.3%. **FCA** generated increases of 13.2% in September and 6.6% in YTD to 1.66m or a 12.8% market share..

### US LV sales – monthly SAAR (Dec'07-Sep'15)

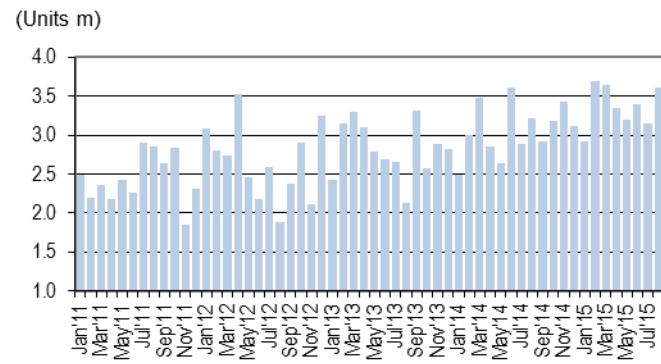


Note: The estimated seasonal factors for the SAAR calculations for July 2014 – June 2015 are restated due to the recent update of seasonal factors from the U.S. Bureau of Economic Analysis (BEA). Source: Autodata

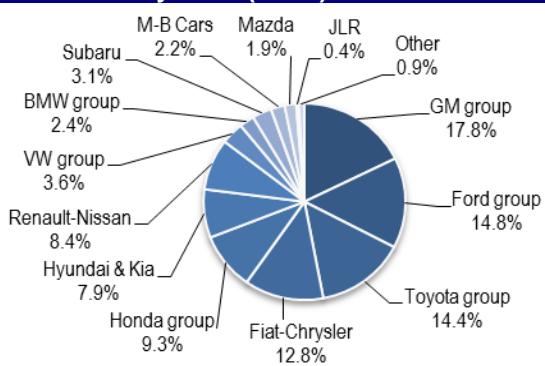
## US Retail LV sales – monthly SAAR (Jan'11–Aug'15)



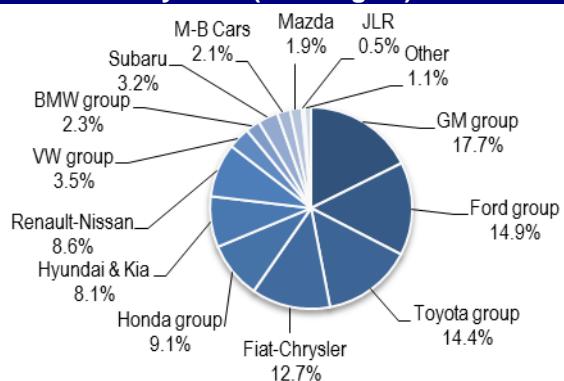
## US Fleet LV sales – monthly SAAR (Jan'11–Aug'15)



## US – LV market by OEM (FY14)



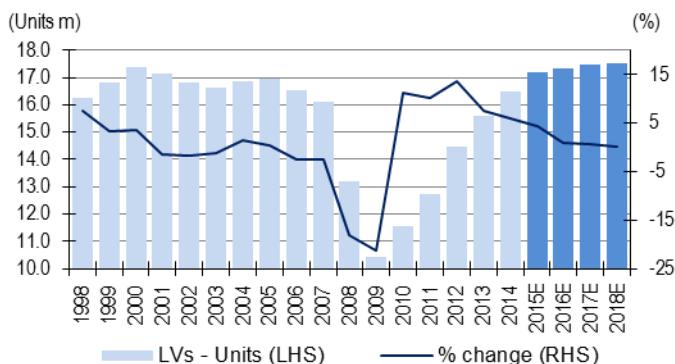
## US – LV market by OEM (Jan-Aug'15)



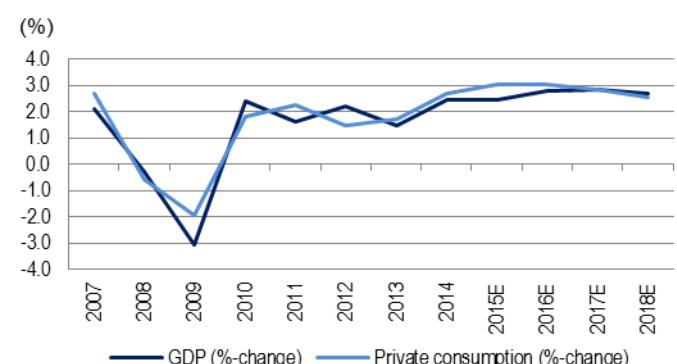
Source: LMC Automotive and CGI calculations

Source: LMC Automotive and CGI calculations

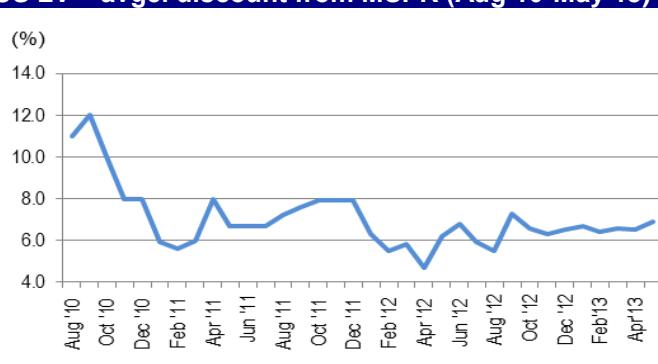
## US LV sales (1998-2018E)



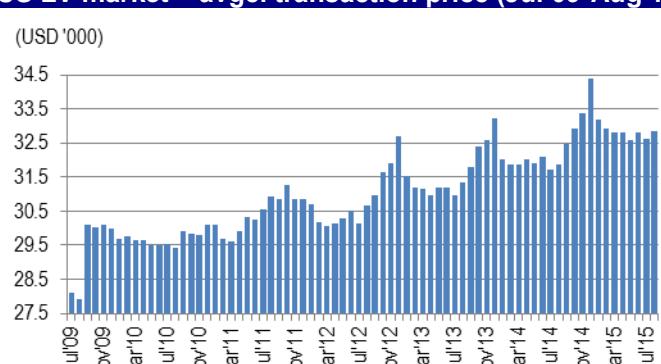
## US – real GDP and private consumption (2007-18E)



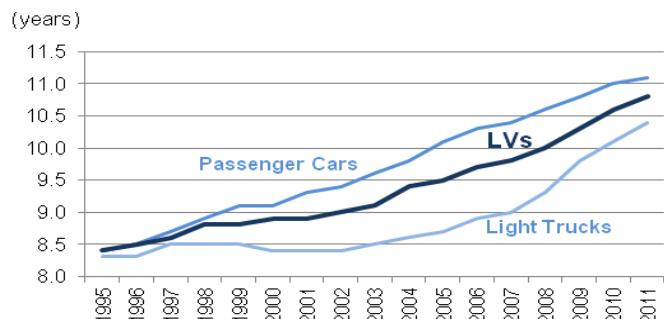
## US LV – avge. discount from MSPR (Aug'10-May'13)



## US LV market – avge. transaction price (Jul'09-Aug'15)

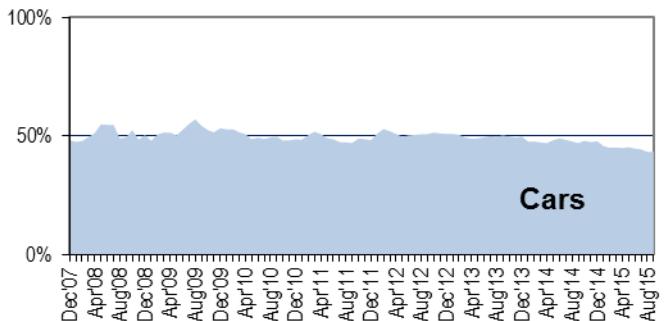


## US LV population – average age (1995-2011\*)



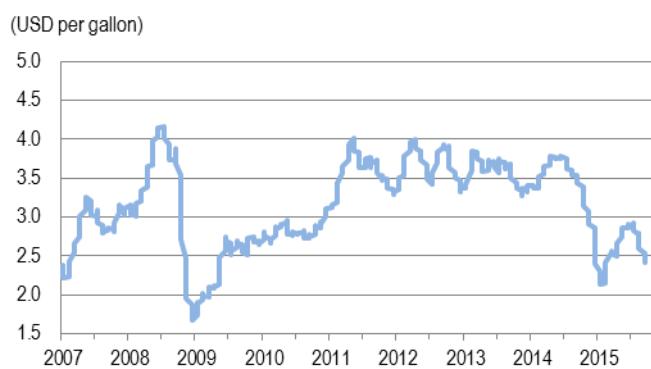
(\*) July of respective year. Source: Polk

## US LV sales - split cars &amp; trucks (Dec'07-Sep'15)



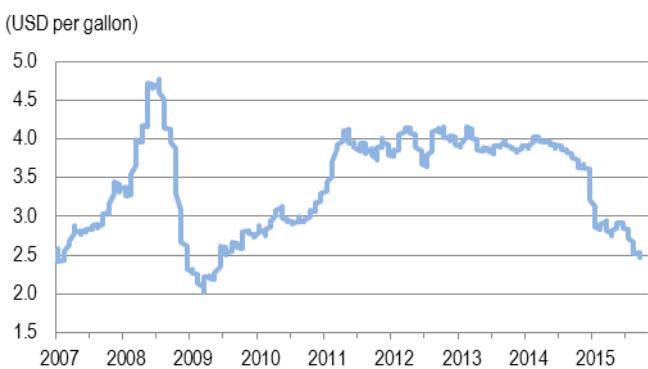
Source: Autodata

## US – Gas retail price (USD/US gallon) (Jan'07-Sep'15)



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

## US – Diesel retail price (USD/gallon) (Jan'07-Sep'15)



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: Bureau of Labor Statistics

Source: Thomson Reuters/University of Michigan

## Western Europe car market

### +10.7% in August

In August, WE passenger car registrations increased 10.7% yoy to 0.71m units, after +9.1% in July, resulting in an 8.5% increase to 8.72m YTD. In July, the SAAR of 13.15m was only marginally (0.5%) down from June's 13.21m that had been the best result since May 2011 (13.24m). Over the past 32 months, the SAAR has improved by some 25%, from an exceedingly low SAAR of 10.55m in January 2013. Although YTD's SAAR of 12.96m was 7.0% better than FY14's 12.10m, it remained 11.2% below the long-term pre-crisis average of 14.6m units. (See p.7.)

### All Big 5 advance strongly YTD

### Germany +5.6%

### France +5.9%

### UK +6.7%

### Italy +15.0%

### Spain +22.3%

### +7.5% in FY15E

**Germany**, Western Europe's largest car market by far increased 6.2% in August and 5.6% to 2.14m YTD. YTD's SAAR of 3.23m was 6.1% better than FY14's 3.04m and just 2% below the LT pre-crisis level of 3.3m. **French** car registrations increased 10.0% in August and 5.9% to 1.26m YTD. At 1.90m, YTD's SAAR remained 9% below the pre-crisis 2000-07 level of 2.09m. In **the UK**, the car market advanced 9.6% in August and 6.7% to 1.63m YTD. YTD's SAAR of 2.57m was 3.6% above the long-term pre-crisis average of 2.45m units. YTD, **Italian** car registrations increased 15.0% to 1.07m units and the SAAR of 1.56m, though up 15% on FY14, remained 33% below the 2.34m LT pre-crisis trend. In **Spain**, improving consumer confidence and the PIVE incentive scheme drove the car market's 22.3% increase to 0.71m units YTD. At just above 1.0m, YTD's SAAR was 18% better than FY14's 0.72m, though remained 32% below pre-crisis trend. (See discussion for the Big Five on pp. 9-13.)

Although underlying demand has been on an uptrend since hitting a low of 10.55m in January 2013, the recovery was slow and intermittent until 4Q14, and has gained momentum since the beginning of this year. A weak euro and lower energy prices have greatly enhanced the macro-economic fundamentals in the Eurozone. After two years of contraction, GDP growth in the Eurozone is expected to accelerate from 0.8% in FY14 to 1.5% in 2015E. The UK economy is expected to decelerate moderately, from FY14's 3.0%. Growth in the WE car market is set to accelerate from 4.9% in FY14 to 7.5% and 13.00m in 2015E. In FY15E, all major markets are expected to contribute to the 0.9m increase in unit sales, whereas in FY14, the UK, Spain and Germany had been the main contributors to the 0.57k increase.

### Only limited reversal of collapse in pricing discipline in the short term

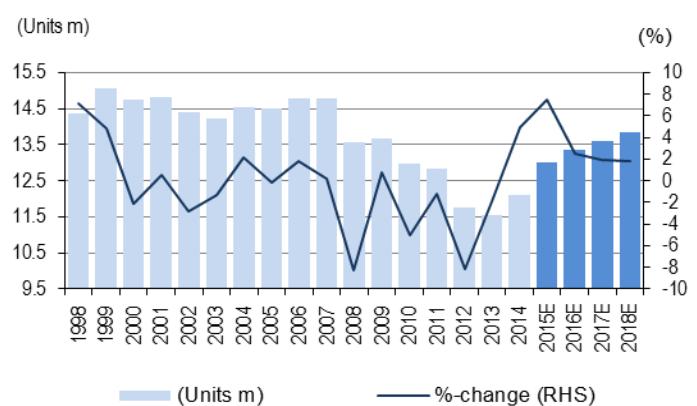
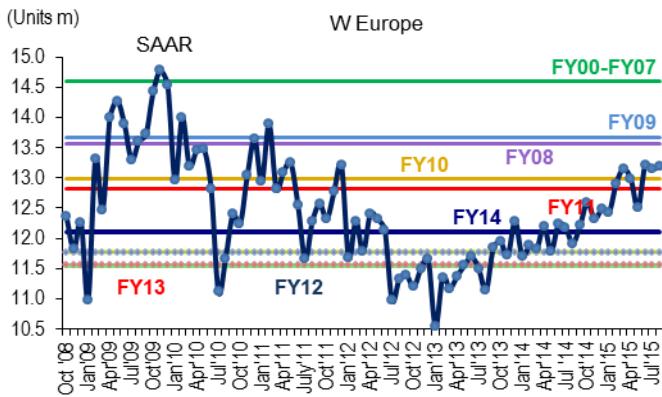
However, we continue to caution that the recovery in the WE car market after six years of recession is overshadowed by OEMs expecting to be able to increase pricing only slowly and indicating that discounts from sticker prices in excess of 10% are still widespread. Although the horrendous competitive 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 manufacturers, the premium manufacturers (mainly BMW, Mercedes and VW's Audi) and, to a lesser extent discount brands have been structurally the best performers in W Europe. The OEMs most vulnerable in the crisis had 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. However, in the short term, they should continue to be main beneficiaries from the accelerating recovery in Southern Europe. (See charts page 8.)

### Polarisation in demand

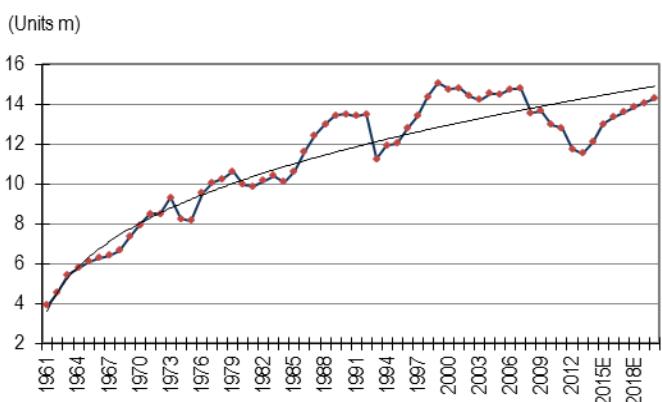
The trend of polarisation in demand into premium and discount brands and products has been intact for the past 20 years and intensified during the prolonged crisis. Driving forces have been the downsizing on the part of the premium brands and an improvement in quality of discount branded products.

W Europe – monthly SAAR<sup>1</sup> vs. trend (Oct'08–Aug'15) W Europe – pc registrations (1998-2018E)

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

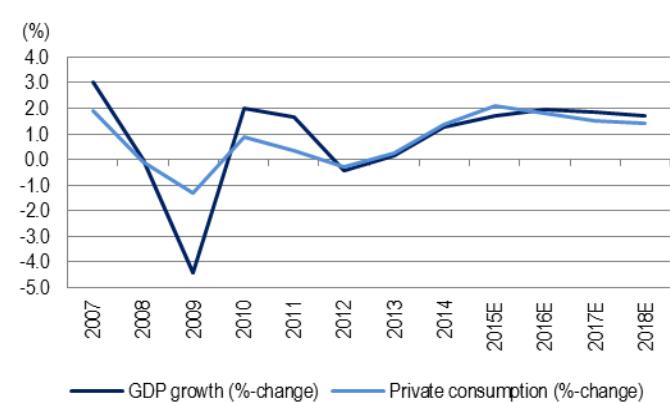
Source: LMC Automotive and CGI estimates

## W Europe – pc registrations (1961-2020E)



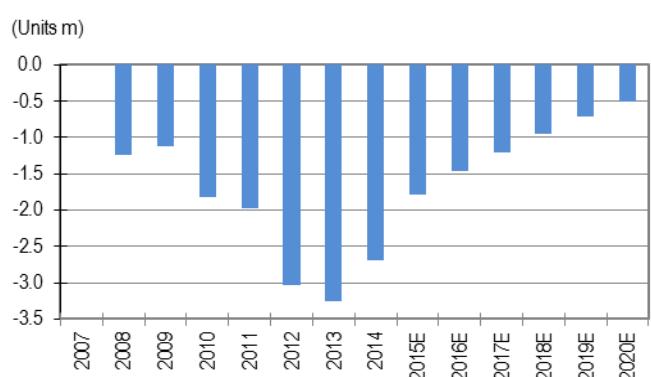
Source: ACEA, LMC Automotive and CGI estimates

## W Europe – real GDP and priv. consumption (2007-18E)



Source: Oxford Economics and CGI estimates

## W Europe – depth of recession – 2008-20E volume decline vs. 2007



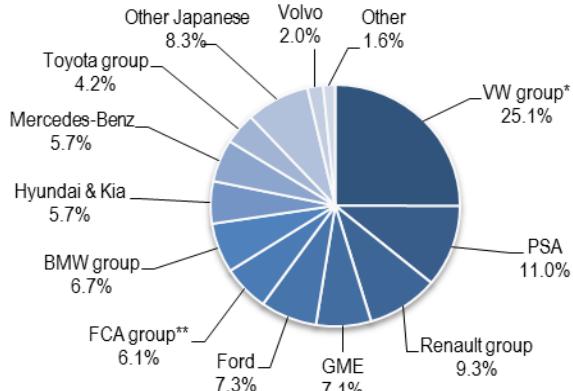
Source: LMC Automotive and CGI estimates

## W Europe – current recession in historic context

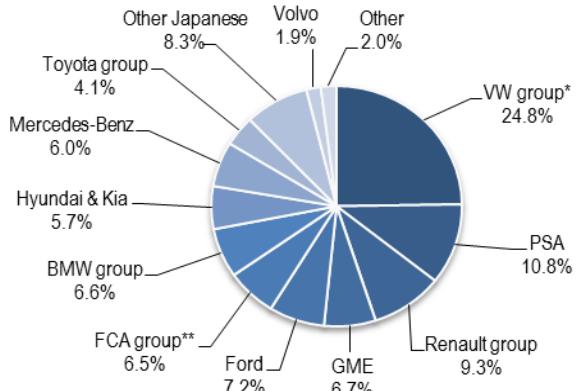
	Depth <sup>1</sup> (Units m)	Duration (years)	Trend growth rate (%)
1970 - oil shock	-1.15	-12.4	< 3
Early 1980s recession	-0.75	-7.0	~ 6
1993 recession	-2.26	-16.8	~ 5
Current crisis (E)	-3.24	-21.9	>14

Source: LMC Automotive and CGI estimates

## W Europe – pc market by OEM (FY14)



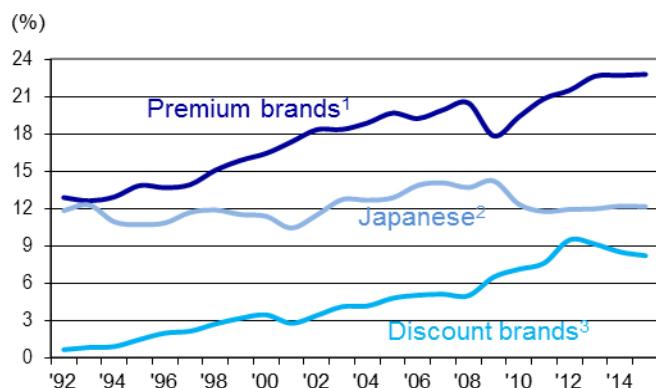
## W Europe – pc market by OEM (Jan-Aug'15)



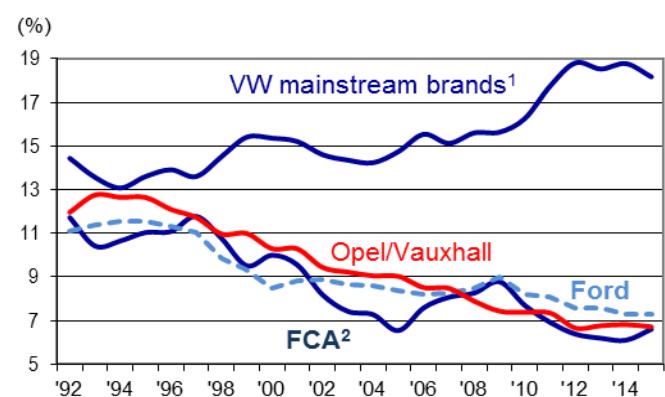
(\*) VW group incl. Porsche. (\*\*) Fiat group incl. Chrysler and Jeep. Source: Association Auxiliaire de l'Automobile, ACEA and CGI calculations

(\*) 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-'15\*)



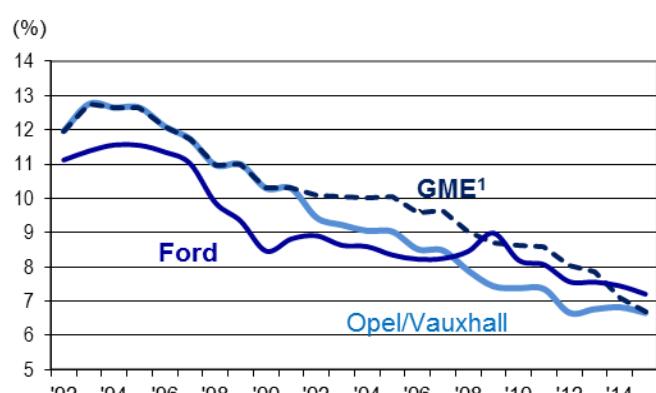
## Mainstream brands: VW group excl. Audi, Opel/Vauxhall, Ford, FGA – WE share ('92-'15\*)



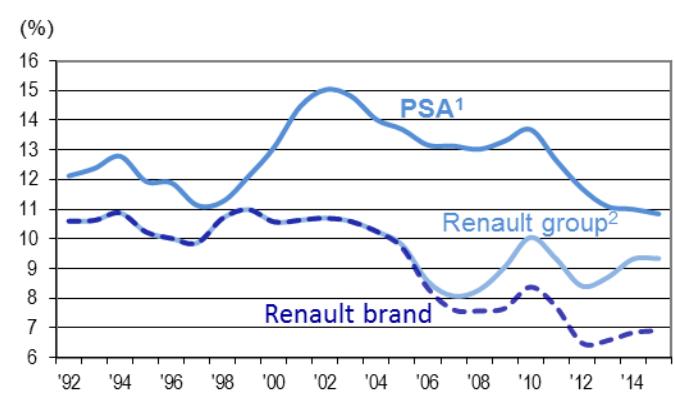
(1) Premium brands: BMW, Mini, Mercedes-Benz, Smart, Audi, Lexus, Porsche, Jaguar, Land Rover, Volvo & SAAB and super-premium brands. (2) Discount brands: Kia, Hyundai, GM's Chevrolet, and Renault's Dacia. (2) Exl. Lexus (\*) YTD=Jan-Aug. Source: Association Auxiliaire de l'Automobile, ACEA, CGI calcs

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

## Ford and GME – WE share ('92-'15\*)



## PSA and Renault group – WE share ('92-'15\*)



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

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

## Germany

**+6.2% in July**

**+5.6% in YTD**

**Retail share continues to decline**

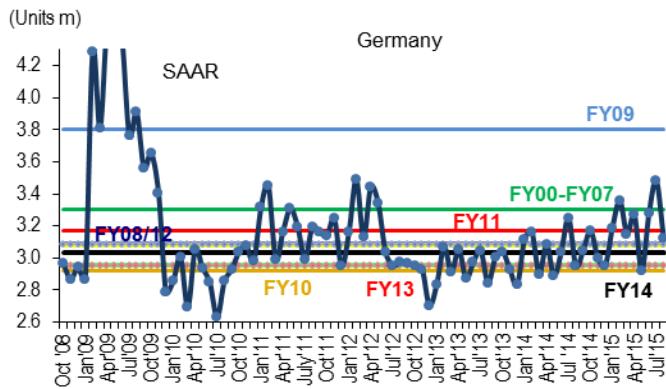
In August, the German passenger car market increased 6.2% yoy to 226.3k units, after a 7.4% increase in July, resulting in a 5.6% increase to 2.14m YTD. This follows a 2.9% recovery to 3.04m units in FY14, after two years of decline. In August, underlying demand weakened again, to a SAAR of 3.12m, down 10.2% mom/from July's 3.48m that had been the strongest month since February 2012's 3.49m and 5.4% above the LT pre-crisis level of 3.3m. YTD, the SAAR was a strong 3.23m, 6.1% better than FY14's 3.04m and just some 2% below the LT pre-crisis level of 3.3m.

The strong and strengthening performance YTD indicates that the German market is, at long last, in solid recovery mode. We understand that as a consequence there is some, moderate improvement in the pricing environment, though discounts are still well above 10%. In addition, the quality of the market has continued to deteriorate with fleet/business and pre-registrations driving the market; the retail share has fallen to well below 35%, from 36.2% in FY14. In addition, about one fifth of car registrations are pre-registered by dealers and then sold as 'used' cars at considerable discounts. The YTD performance supports the expectation that in FY15E, the German market will grow 5.3% to 3.20m units, but this is still 3% short of the 2000-07 pre-crisis level of 3.3m.

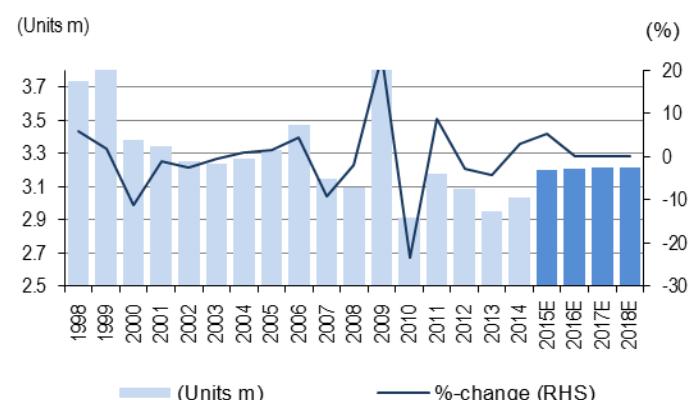
**+5.3% in 2015E**

Over the past 12 months, a dramatically lower oil price and a weaker euro have greatly improved Germany's macro-economic fundamentals, accelerating GDP growth to 0.4% in 2Q15, from 0.3% in 1Q15. However, despite a tight labour market, rising wages and disposable income, the upside for further acceleration is limited. In FY15E, GDP growth is expected to remain well below 2%, after 1.6% in FY14..

### Germany – monthly SAAR<sup>1</sup> vs. trend (Oct'08-Aug'15)



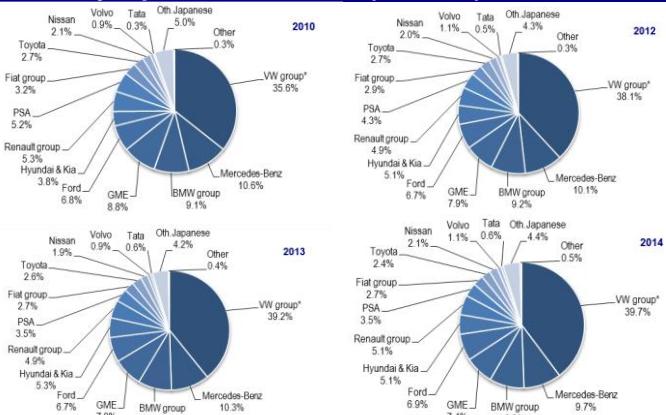
### Germany – pc registrations (1998-2018E)



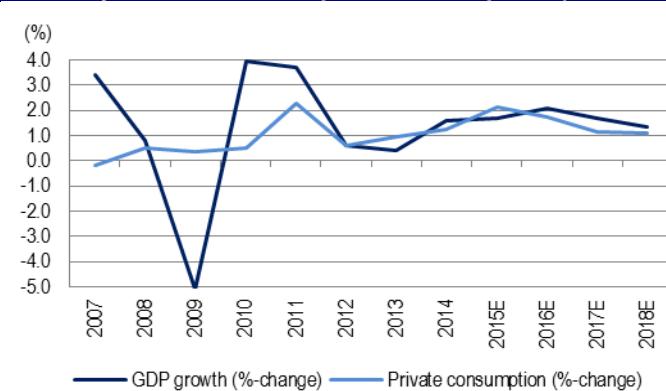
(1) SAAR according to LMC Automotive. Source: KFBA, LMC Automotive and CGI calculations

Source: KFBA, LMC Automotive and CGI estimates

### Germany – pc market shares (2010-14)



### Germany – real GDP and priv. consumption (2007-18E)



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

Source: Oxford Economics and CGI estimates

## France

**+10.0% in August**

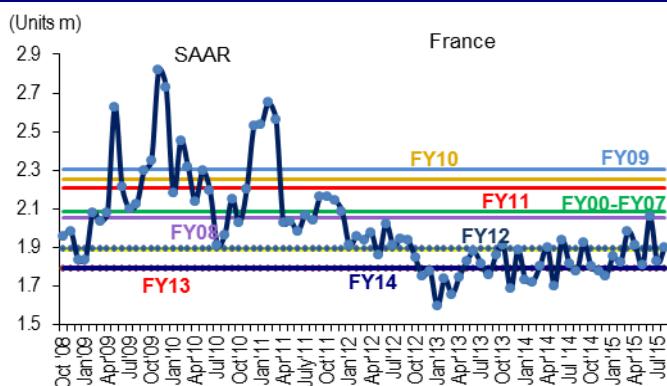
In August, French car registrations increased 10.0% yoy to 92.0k units, after 2.3% in July, resulting in a 5.9% increase to 1.26m YTD. However, adjusted for the number of working days, the yoy increase was 4.7% in August, after 2.3% in July. This follows a flat FY14 market, up 0.3% at 1.80m, and four years of decline.

**+5.6% in FY15E**

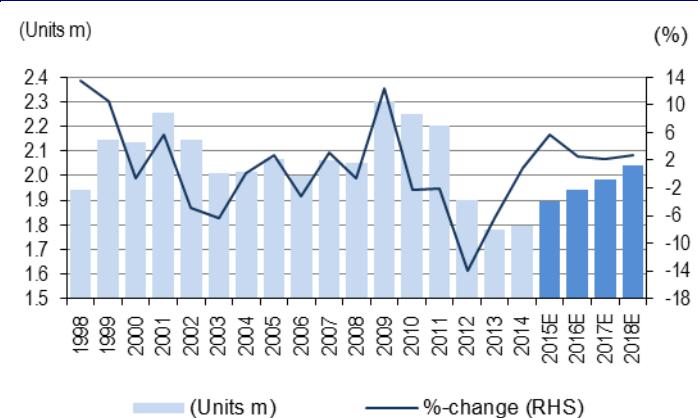
In August, underlying demand recovered again, albeit marginally, to a SAAR of 1.90m, up 4.0% mom/from July's 1.83m, but remained 8% below June's 2.06m that had been the strongest month since December 2011 (2.09m). YTD's SAAR of 1.90m, though up 5.8% from FY14's 1.80m, remained still 9% below the pre-crisis 2000-07 level of 2.09m. For FY15E, we expect the French market to grow 5.6% to 1.90m units.

France's macro-economic credentials have remained mixed, with GDP stagnating again in 2Q15, after a 0.7% growth in 1Q15, the latter being the fastest quarter since 2Q13. Despite some weakness in 2Q15, a recovery in private consumption is set to result in a sharp acceleration in FY15E GDP growth to 1.3%, from just 0.2% in FY14. While unemployment has remained above 10%, low inflation is boosting disposable income this year.

### France – monthly SAAR<sup>1</sup> vs. trend (Oct'08-Aug'15)

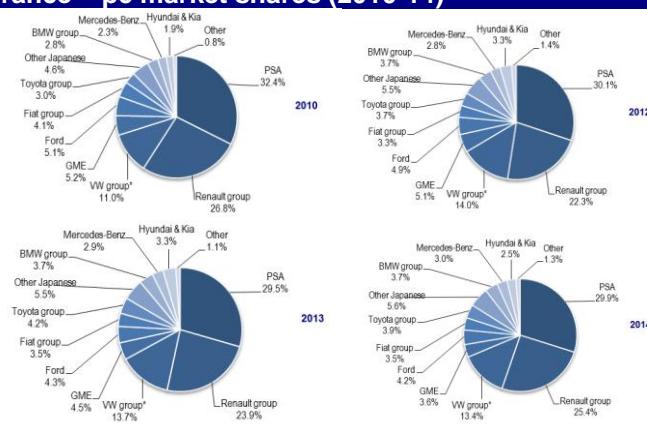


### France – pc registrations (1998-2018E)

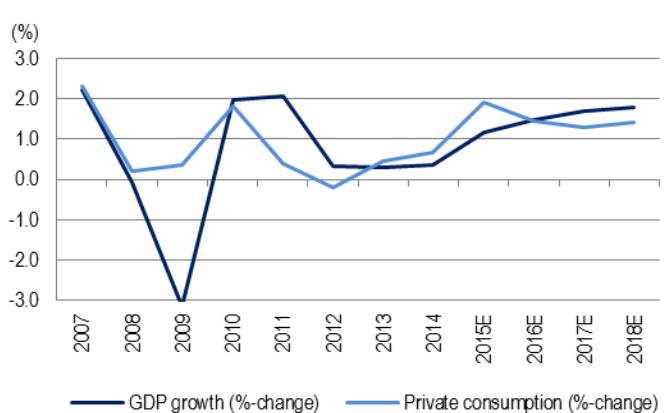


(1) SAAR according to calculations by LMC Automotive. Source: CCFA, LMC Automotive and Source: CCFA, LMC Automotive and CGI estimates  
CGI calculations

### France – pc market shares (2010-14)



### France – real GDP and priv. consumption (2007-18E)



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

Source: Oxford Economics, IMF and CGI estimates

## Italy

**+10.6% in August**

**+15.0% in YTD**

**Things are looking up**

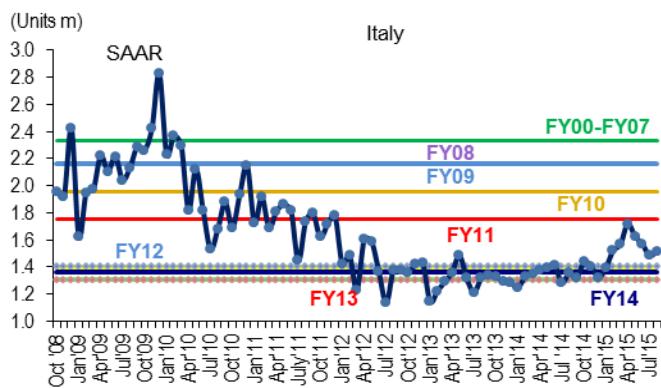
In August, Italian car registrations grew 10.6% yoy to 59.2k units, after 15.1% in July, resulting in a 15.0% increase to 1.07m YTD. In August, underlying demand strengthened again, after three months of decline. August's SAAR of 1.52m was up 2.0% mom/from July's 1.49m, but remained 12% below April's 1.72m that had been the strongest month since December 2011 (1.99m). YTD's SAAR of 1.56m was up 15% from FY14's 1.36m, though remained 33% below the 2.34m pre-crisis trend.

Italy has at long last come out from triple-dip recession: GDP advanced 0.3% qoq in 1Q15 and 0.2% in 2Q15, making them the strongest quarters in four years that included 13 quarters of contraction/ stagnation at best. The driving force has been domestic demand that benefited greatly from lower energy prices and deflation. After having shrunk by almost 5% in 2012-14, real GDP is set to recover, albeit slowly in 2015E-16E, by some 0.6% and 1.0% respectively. Challenges remain a vicious circle of austerity and, despite recent improvements, high unemployment that has failed to fall below 12%.

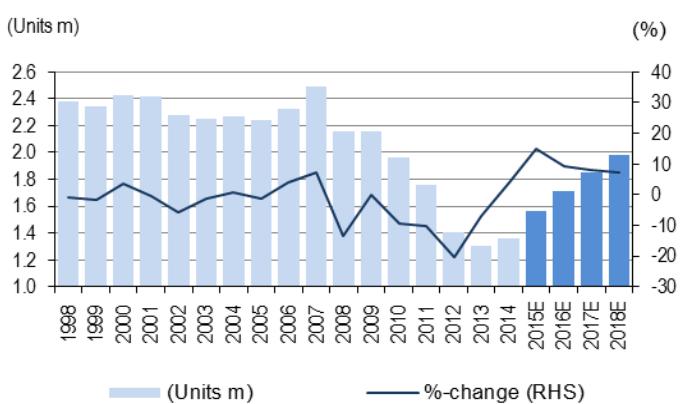
**+15.0% in 2015E**

The FY14 increase in the Italian car market by 4.2% to 1.36m was the first one after six consecutive years of decline, leaving the market 37% below pre-crisis LT trend. In view of the strong performance YTD, a large car parc and considerable pent-up demand, the Italian car market is set for a strong recovery. For FY15E, we expect the market to grow 15.0% to 1.56m units.

**Italy – monthly SAAR<sup>1</sup> vs. trend (Oct'08-Aug'15)**

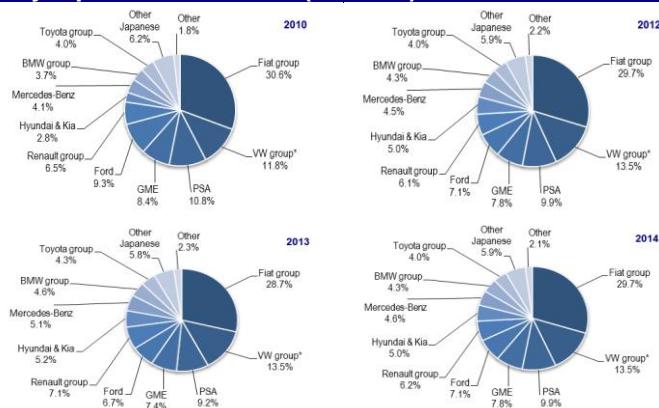


**Italy – pc registrations (1998-2018E)**

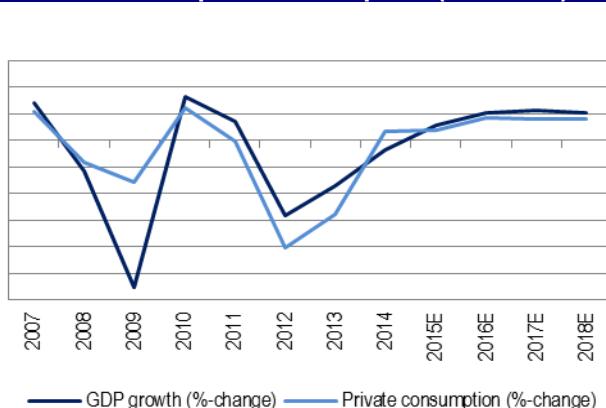


(1) SAAR according to calculations by LMC Automotive. Source: ANFIA, UNRAE, LMC Automotive and CGI estimates and CGI calculations

**Italy – pc market shares (2010-14)**



**Italy – real GDP and priv. consumption (2007-18E)**



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

Source: Oxford Economics and CGI estimates

## Spain

**+23.3% in August**

**+22.3% in YTD**

In August, Spanish car registrations grew 23.3% yoy to 55.9k units, after 23.5% in July, resulting in a 22.3% increase to 0.71m YTD. This follows an 18.4% increase to 0.86m in FY14. In August, the SAAR of 1.04m was marginally better than during the previous three months and almost matched March's 1.05m that had been the strongest month since June 2010 (1.13m). At just above 1.0m, YTD's SAAR was 18% better than FY14's 0.72m, though remained 32% below the 2000-07 level of 1.48m units.

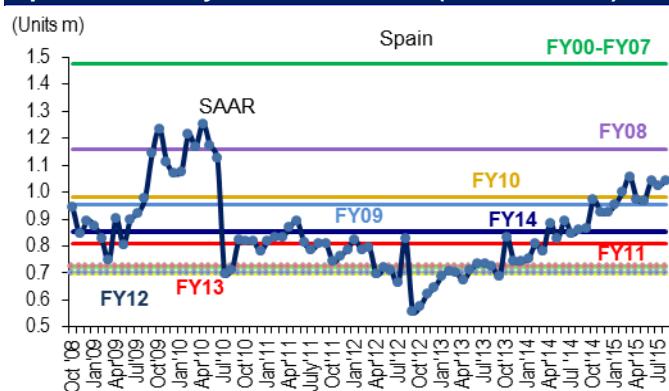
### Government incentive scheme

The relative strength of the Spanish car market since 4Q12 was initially primarily due to the PIVE scrappage scheme that was first announced and introduced in October 2012. It has been topped up and is now in its eighth incarnation. However, increasingly important drivers of the car market have been the recovery in the Spanish economy, greatly exceeding that of the Eurozone and an improving consumer confidence.

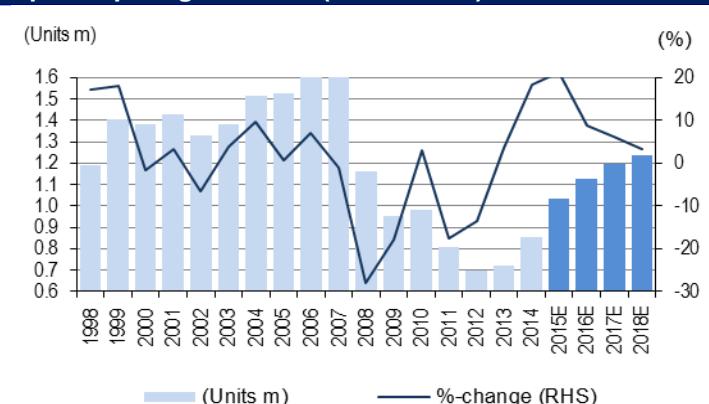
**+21.2% in 2015E**

Spain, one of the fastest growing economies in the Eurozone, saw its GDP growth accelerate from 0.9% qoq in 1Q15 to 1.0% in 2Q15, the highest growth rate in a decade. In FY15E, GDP is expected to grow 3.2%, after 1.4% in FY14. The recovery has steadily broadened into services and the domestic sector, the latter benefiting from the 2012 labour market reforms; consumer confidence has recovered greatly since mid-2012, now beating pre-crisis levels. However, unemployment that has eased only recently to below 23%, 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 21.2% to 1.13m, exceeding the 1.0m mark for the first time since 2008.

### Spain – monthly SAAR<sup>1</sup> vs. trend (Oct'08-Jul'15)



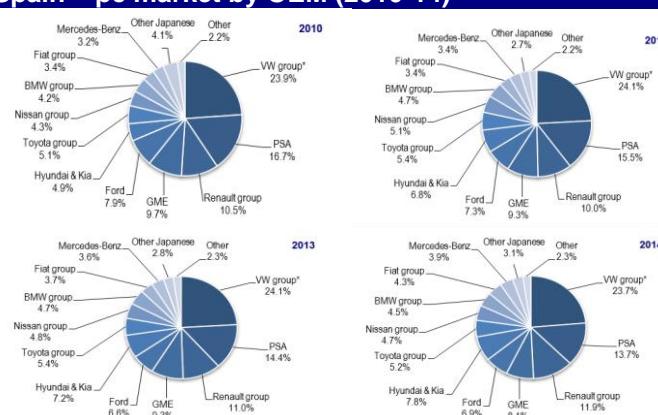
### Spain – pc registrations (1998-2018E)



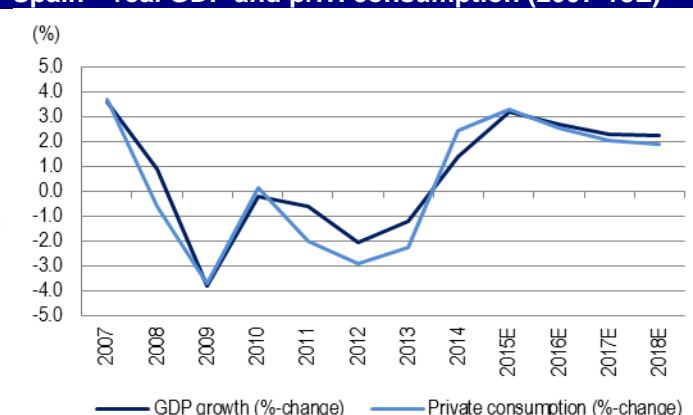
(1) SAAR according to calculations by LMC Automotive. Source: ANFAC, LMC Automotive and CGI calculations

Source: ANFAC, LMC Automotive and CGI estimates

### Spain – pc market by OEM (2010-14)



### Spain – real GDP and priv. consumption (2007-18E)



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

Source: Oxford Economics and CGI estimates

## UK

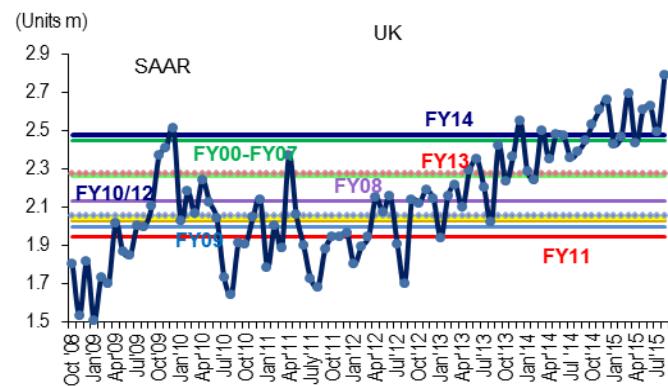
**+9.6% in August****+6.7% in YTD**

In August, UK car registrations advanced 9.6% yoy to 79.1k units, after 3.2% in July, resulting in a 6.7% increase to 1.63m YTD. The UK market had recovered last year, as it expanded 9.3% to 2.48m, making it the best annual result since 2004, topping the pre-crisis LT trend level of 2.45m.

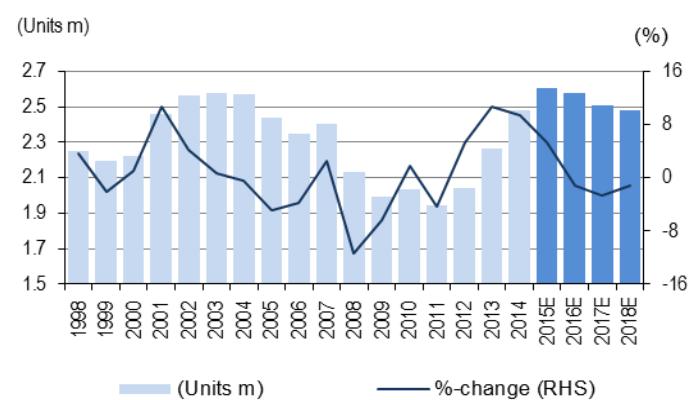
Driven by pent-up demand, easy credit, aggressive marketing and a continuing economic recovery, with GDP growing 3.0% in 2014, the UK market has been growing for 42 months, making it the longest period of growth on record. Falling petrol prices, zero inflation and accelerating earnings growth have turbo-charged consumer confidence to above pre-crisis levels. However, the fact that YTD, fleet/business sales have taken over from retail sales as market driver points to a long-awaited slowdown in the UK market. YTD, private demand increased only 2.2%, reducing its share to 46%, after a 10.0% increase in FY14.

**+5.3% in 2015E**

In August, underlying demand strengthened again, to a SAAR of 2.79m, up 11.9% mom/from July's 2.63m and 3.4% above March's SAAR of 2.69m that had been the strongest month in six years. YTD's SAAR of 2.57m was 3.6% up on FY14's 2.48m and 4.9% above the long-term pre-crisis average of 2.45m units. We expect the UK car market will grow another 5.3% to 2.61m in FY15E and weaken thereafter, while the economy is expected to decelerate moderately. Challenges include growing political uncertainty in view of the future of the UK itself and its relationship to Europe.

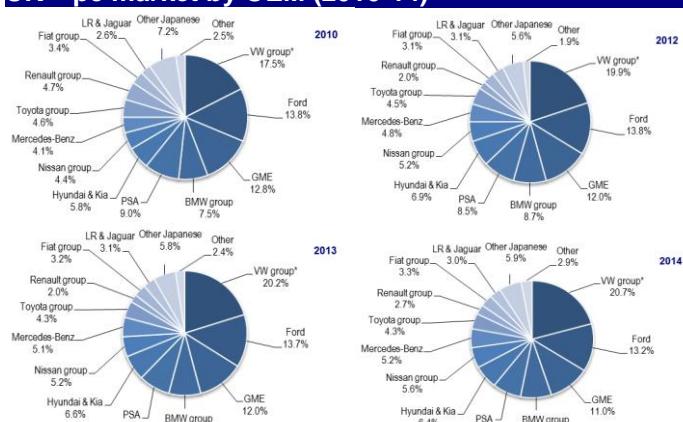
UK – monthly SAAR<sup>1</sup> vs. trend (Oct'08-Aug'15)

## UK – pc registrations (1998-2018E)

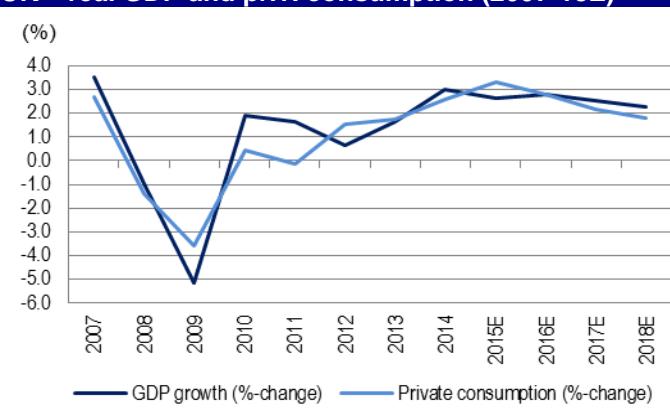


(1) SAAR according to calculations by LMC Automotive. Source: SMMT, LMC Automotive and CGI Source: SMMT, LMC Automotive and CGI estimates calculations

## UK – pc market by OEM (2010-14)



## UK – real GDP and priv. consumption (2007-18E)



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

Source: IMF, Oxford Economics and CGI estimates

## Japan pc market

**-3.5% in August**

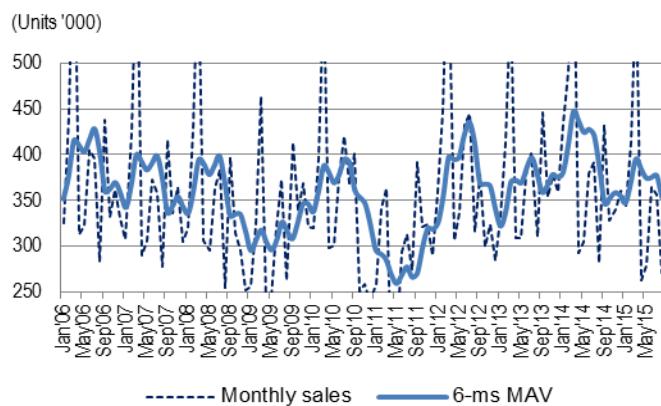
**-11.1% in YTD**

**-10.5% in FY15E**

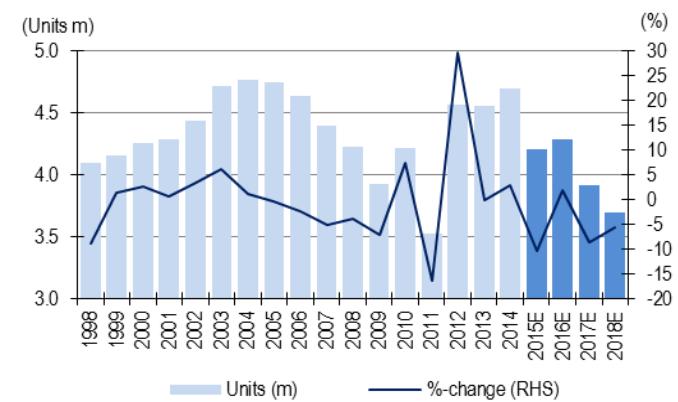
In August, vehicle sales declined -3.5% yoy to 0.27m pcs and -1.7% to 0.32m LVs, resulting in YTD declines of 11.1% and 10.0% respectively. At 4.88m, the YTD SAAR was down 10% from FY14's strong 5.44m LVs that had been boosted by the 1Q14 sales boom, due to pre-buying ahead of the increase in consumption tax from 5% to 8% on April 1<sup>st</sup> 2014. However, after a strong 1Q15 with a SAAR of more than 5m, thanks to some pre-buying in anticipation of increases for the annual mini car tax and tighter rules to qualify for the 'eco-car' tax, the SAAR has deteriorated sharply to just 4.6m in July and 4.7m in August. For FY15E, we expect declines of 10.5% to 4.20m pcs and 9.8% to 4.91m LVs.

Recent macro-economic indicators have turned negative again, with GDP contracting an annualised -1.2% in 2Q15, after having grown +4.5% in 1Q15. Disappointingly, private consumption, business investment and net exports all declined in 2Q15. The growth figures suggest there is still little momentum in domestic demand growth, despite the BoJ's massive stimulus, raising the prospect of additional monetary easing later this year. In FY15E, GDP growth is expected to fall short of 1.0%, after a small contraction in FY14. The dramatic slowdown in the Chinese economy poses an additional headwind to PM Abe's attempt to reflate the Japanese economy; this is due both directly through lower direct exports and indirectly through the repercussion on other Asian economies. We see this reflected in a (mom) declines in industrial production of 0.8% in July and 0.5% August.

Japan – monthly pc registrations (Jan'06-Aug'15)



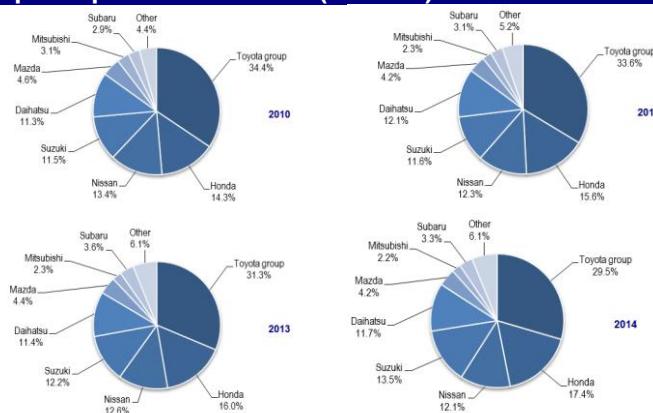
Japan – pc market (1998-2018E)



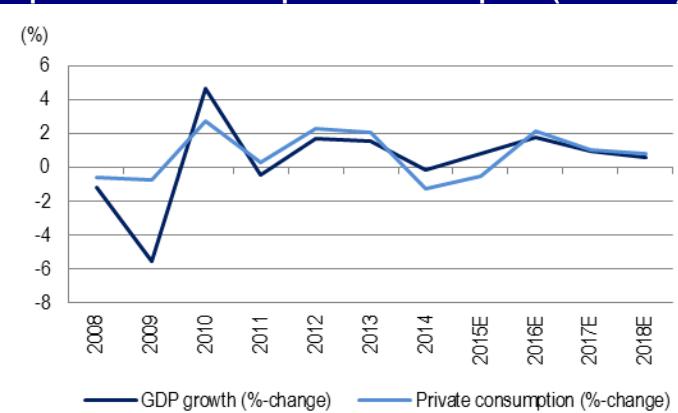
Source: JAMA and CGI calculations

Source: JAMA, LMC Automotive and CGI estimates

Japan – pc market shares (2010-14)



Japan – real GDP and private consumption (2008-18E)



Source: JAMA and CGI calculations

Source: Oxford Economics and CGI estimates

## China LV market

**-1.6% in July**

**+1.1% in YTD**

**Correction in PV sales, driven by economy....**

**...and exacerbated by inventory adjustment and pay-back in Tier 1-2 cities**

**+2.1% in FY15E**

**+8.1% in 2016E**

**'New normal'**

**Long-term trends weaker**

In August, China LV wholesales declined 1.6% yoy to 1.71m units, after -7.4% in July, resulting in a 1.1% increase to 15.3m YTD. Although the Chinese LV market incurred yoy declines for four consecutive months, the LV SAAR averaged 23.6m YTD, in line with FY14's 23.6m. However, this camouflages the fact that during this year, underlying demand has deteriorated sharply, from 24.8m in January/February to 23.0m in June, 21.4m in July and 23.3m in August.

The deterioration in the overall Chinese LV market has been due to a considerable correction in the dominant private vehicle (PV) segment where the SAAR has declined from a 21m peak in 1Q15 to 19.6m in 2Q15 and less than 19m on July/August. At first sight, this is due to a falling consumer confidence, in view of a deteriorating economy and the stock market crash. However, we understand that the market correction has been exacerbated by necessary reduction in dealer inventories and pay-back in Tier 1&2 cities where the fear of introduction of purchasing restrictions had led to buying frenzy in late 2013 and early 2014. We understand that the sales performance in Lower Tier (minor) cities has held up comparatively well.

This, together with the just announced temporary 50% cut in purchase tax for small cars (with up to 1.6l-engines) to 5%, gives hope for a stabilisation and modest recovery in underlying demand in 4Q15 and 2016. On this basis, after having expanded by a CAGR of 13% in 2010-14, PV sales are expected to grow by just 4.2% (to 20.5m units) in FY15E and accelerate to 9.2% (22.4m) in 2016E. (Note: LCVs should continue their decline of four years by another 8.3% in FY15E, due to uncertainties over the impending China IV emission regulations and the slowdown in construction.) As a result, growth in the overall LV market is expected to decelerate from 8.0% in FY14 to 2.1% (24.1m) in FY15E and accelerate again to 8.1% in 2016E.

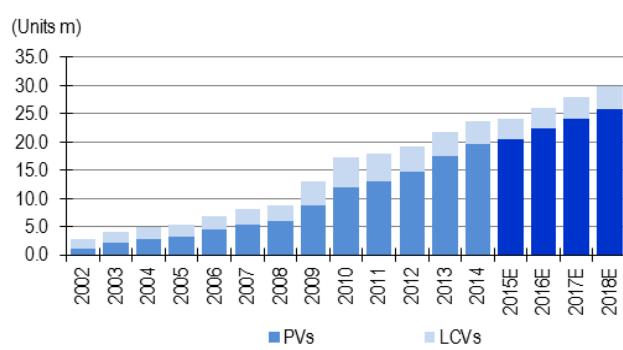
GDP growth continued to decelerate to 7.0% in 1H15, down from 7.3% in FY14. The government's FY15 target of 'around 7%' reflects the change of focus away from rapid growth towards employment and the environment. In the medium term, GDP growth should continue to decelerate considerably as domestic activity is curbed by a correction in the real estate market, high levels of debt and excess capacity in various industrial sectors. Although 'Likonomics' aims at weaning the economy off government-led FA investments and rebalancing it towards private consumption and services, we expect that the central and regional governments will continue to use mini-stimuli to keep the economy on an even keel.

The Chinese LV market is expected to grow at a CAGR of 6.1% in 2014-2018E, the result of a flat LCV segment and a PV segment growing at a CAGR of 7.1%. During 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.)

**China – monthly LV sales (Dec'09-Aug'15)**

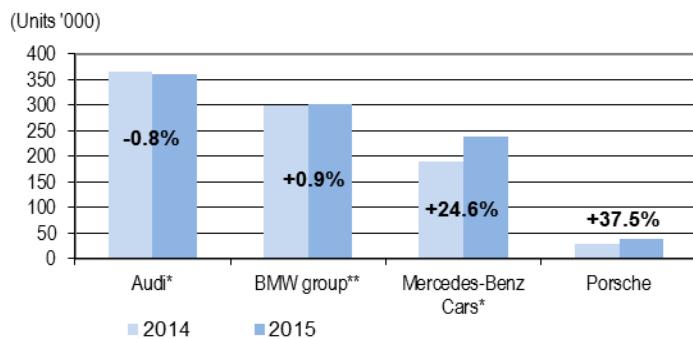


**China – LV sales (2002-18E)**

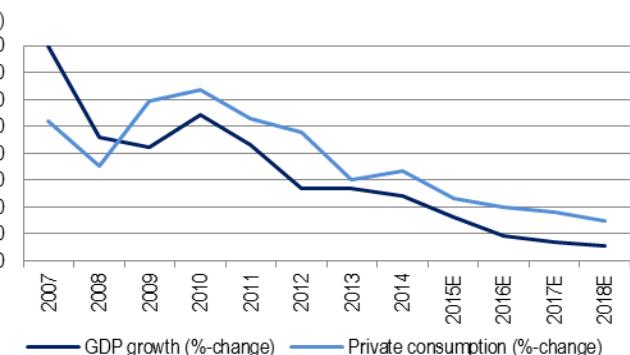


(1) incl. imports Source: LMC Automotive and CGI calculations

Source: LMC Automotive and CGI estimates

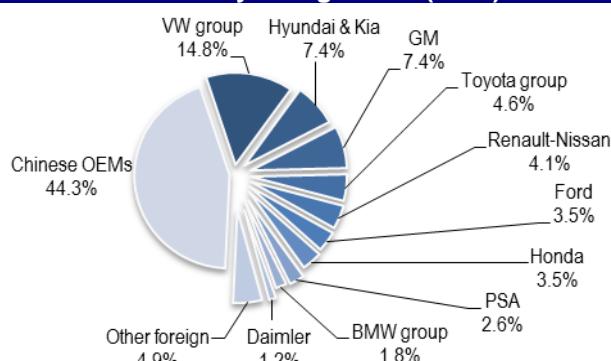
German premium brands<sup>x</sup> (Jan-Aug 2014 & 2015)

## China – real GDP and private consumption (2007-18E)



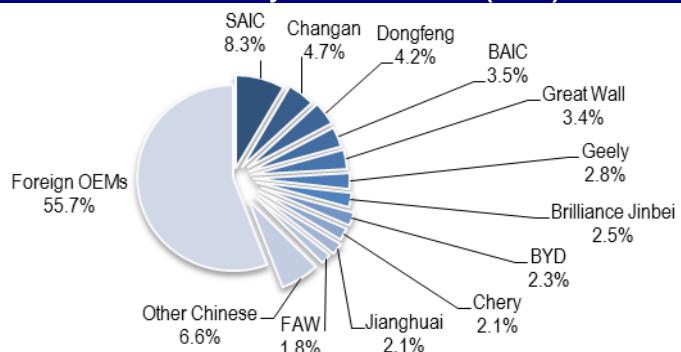
(x) Deliveries. (\*) Incl. Hong Kong. (\*\*) BMW and Mini only. Source: Company data and CGI Source: Oxford Economics and CGI estimates calculations

## China – LV market by foreign OEM (2013)



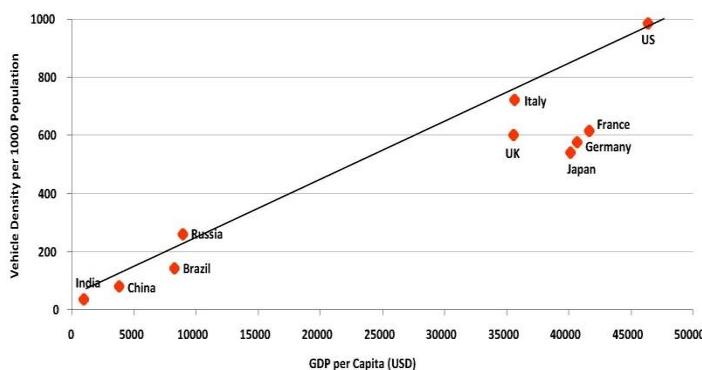
Source: LMC Automotive and CGI calculations

## China – LV market by domestic OEM (2013)



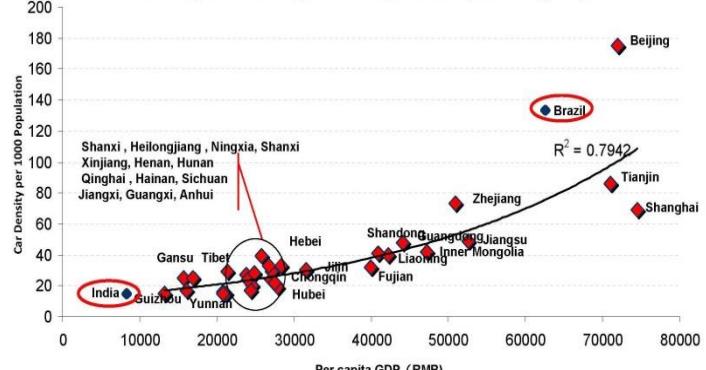
Source: LMC Automotive and CGI calculations

## China – vehicle density &amp; GDP per capita (2010)



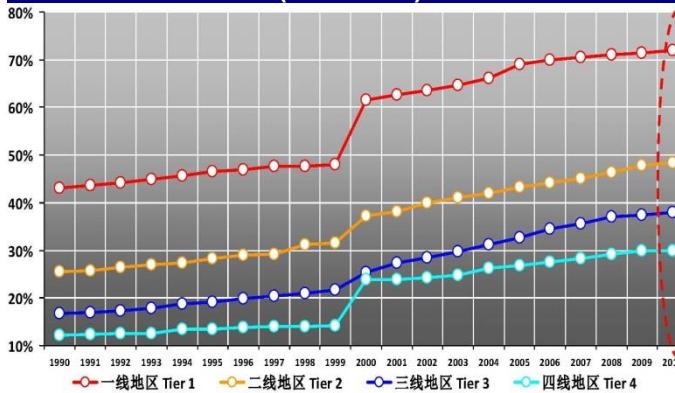
Source: LMC Automotive

## China by province – car density &amp; GDP per capita



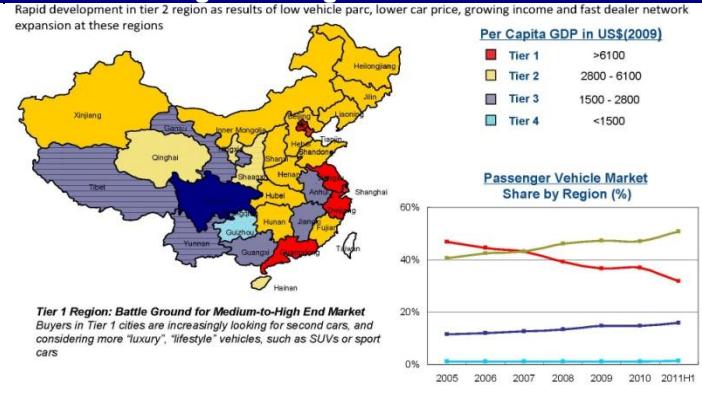
Source: LMC Automotive

## China – urbanisation (1990-2010)



Source: LMC Automotive

## China – inland growth engine



Source: LMC Automotive

## Brazil LV market

**-22.9% in August**

**-20.4% in YTD**

**Brazil's economic situation keeps deteriorating**

**Consumer sector in meltdown**

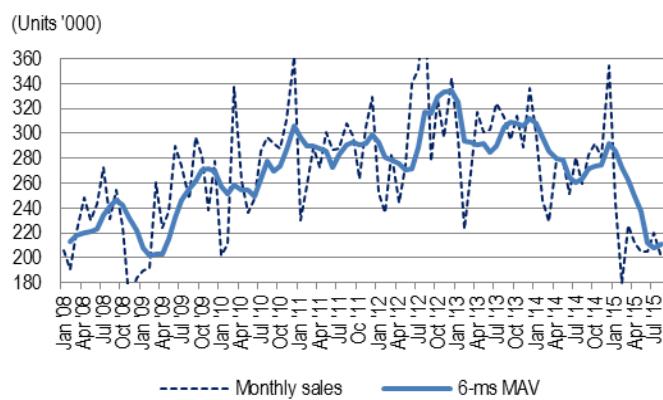
**-27% in FY15E**

In August, Brazilian LV sales declined 22.9% yoy to 0.20m units, after -21.6% in July, resulting in a 20.4% decline to 1.69m YTD. This follows a 6.9% decline to 3.33m in FY14. The downward trend in LV sales that started in mid-2012 has accelerated sharply as austerity and recession are biting, further squeezing the purchasing power of the Brazilian consumer; this is exacerbated by ever tighter credit conditions. Indeed, after a spike in November/December when pre-buying ahead of the expiry of the second tranche of IPI tax cuts boosted the SAAR to 3.3m and 3.7m, underlying demand has deteriorated sharply from 3.1m in January, to 2.5m in 2Q15, 2.4m in July and 2.3m in August, averaging 2.6m YTD.

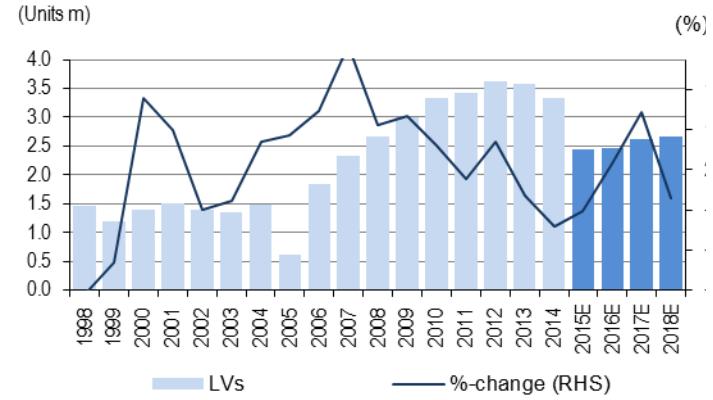
Brazil has descended into a broad-based fiscal crisis and the deepest recession in 25-years as the fall-out from declining exports, rising inflation and interest rates has been exacerbated by the government's monumental corruption scandal. So far, investment in FAs has declined 17% over a 21-months period and LV production declined 15% yoy in YTD. Consumer confidence has collapsed to levels not seen since 2001. Private consumption that, fuelled by subsidised credit, had been driving the economy since 2007 and had slowed dramatically to 0.8% in FY14, is expected to contract 2% in FY15E and stagnate in 2016E. Austerity measures, price increases for consumer basics and tax increases aimed at balancing overall budget have greatly increased the burden for the consumer; inflation jumped, testing 10% in July/August; the currency collapsed another 50% vs. USD YTD; interest rates have risen by 200bps YTD and 425bps since January 2014; and employment keeps falling.

The Brazilian LV market is therefore heading for a sharp correction by 27% to 2.44m units in FY15E and stagnating at best in 2016E. This follows already two years of decline, by -6.9% in FY14 and -1.6% in FY13 respectively. We believe that despite several downgrades there remains a considerable downside risk to the forecast

**Brazil – monthly LV registrations (Jan'08-Aug'15)**



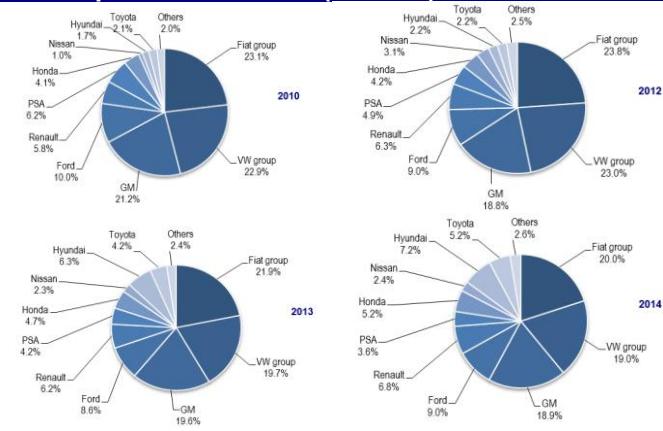
**Brazil – LV market (1998-2018E)**



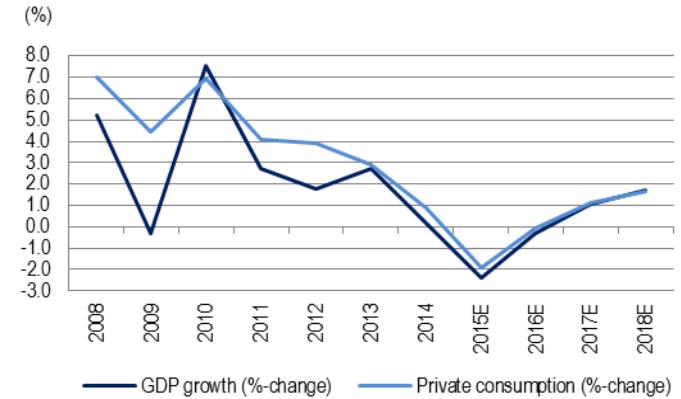
Source: ANFAVEA and CGI calculations

Source: ANFAVEA, LMC Automotive and CGI estimates

**Brazil – pc market shares (2010-14)**



**Brazil – real GDP and private consumption (2008-18E)**



Source: ANFAVEA and CGI calculations

Source: Oxford Economics and CGI estimates

## Russia LV market

**-19.4% in August**

**-33.5% in YTD**

**Renewd collapse in oil price and rouble...**

**...keep Russia's economy in crisis territory**

**-36% in 2015E**

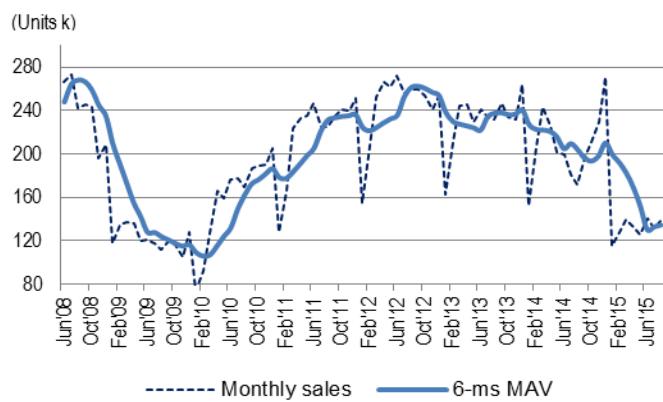
In August, Russian LV sales declined 19.4% to 138.7k units, after -27.5% in July, resulting in a 33.5% decline to 1.05m in YTD. This follows a 10% decline to 2.49m units in FY14. August's 'relative' strength was due to purchases brought forward due to renewed price increases in September

Russia's macro-economic outlook has failed to improve on a consistent basis, despite some short periods of glimmer of hope in 2Q15. The renewed weakening of the oil price to well below USD 50 (after having recovered to USD 70/bbl in 1H15) put again pressure on the rouble that fell to USD 60-70 (after having strengthened to USD 50 in 1H15). This resulted in a slowdown in monetary easing: the benchmark interest rate has remained at 11.0% since 31st July, after having been cut by 6.0%-pts in the first seven months, only partially reversing last year's rate hike (of 11.5%-pts).

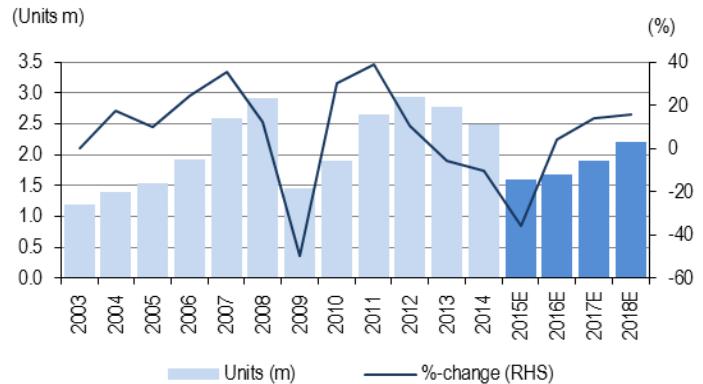
The FY15E recession that includes a GDP contraction of 3.6% should be followed by a subdued recovery from 2016 onwards. The consumer has been hit particularly badly as reflected in a collapse in consumer confidence close to 2009 levels. A dramatic erosion of purchasing power should therefore result in private consumption to contract by more than 6% in FY15E.

In FY15E, the Russian LV market is set for a 36% decline to 1.61m units. This takes into account multiple incentive schemes brought in by the government, including scrappage initiatives, discounted leasing support, and, preferential loan interest subsidies (for some 190k LVs).

Russia – monthly LV sales<sup>1</sup> (Jun'08-Aug'15)



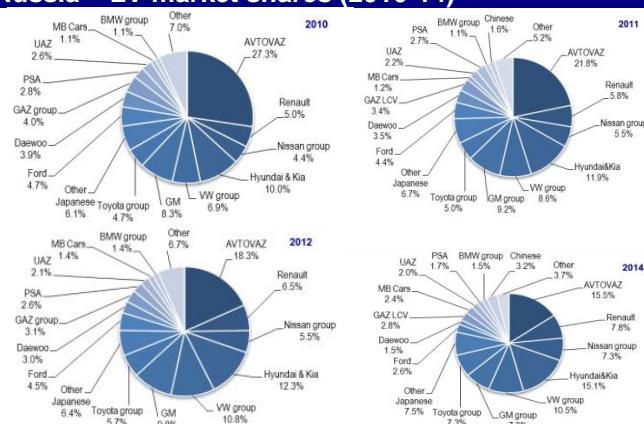
Russia – LV sales (2003-18E)



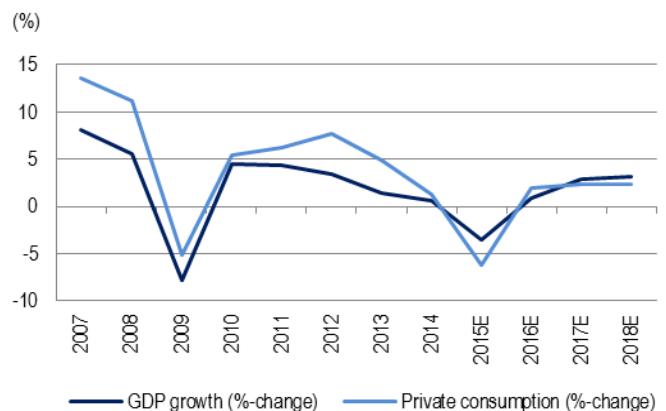
(1) LV sales = passenger cars and LCV. Source: AEB and CGI calculations

Source: AEB, LMC Automotive and CGI estimates

Russia – LV market shares (2010-14)



Russia – real GDP and private consumption (2007-18E)



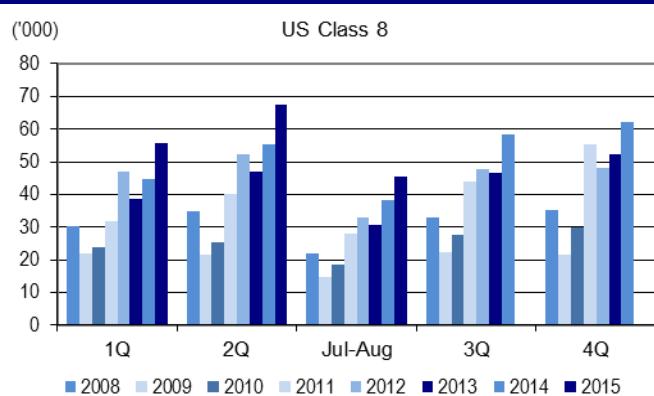
Source: AEB and CGI calculations

Source: Oxford Economics and CGI estimates

## Demand trends for trucks

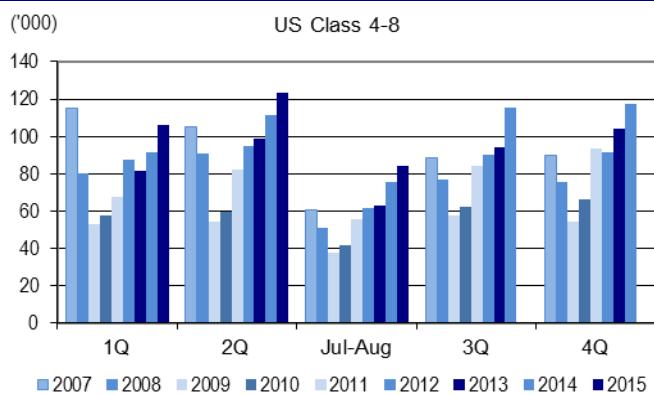
### US medium & heavy truck market

#### US – Class 8 sales



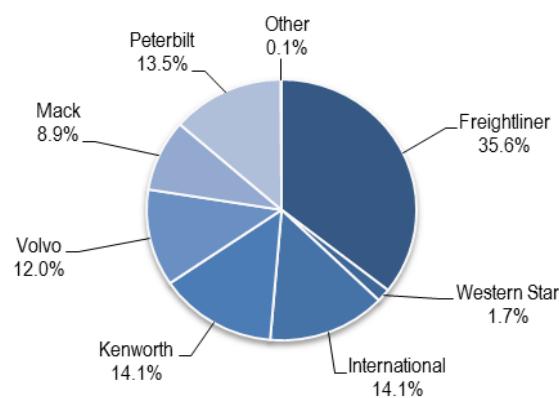
Source: Automotive News Data Center, CGI calculations

#### US – Class 4-8 sales



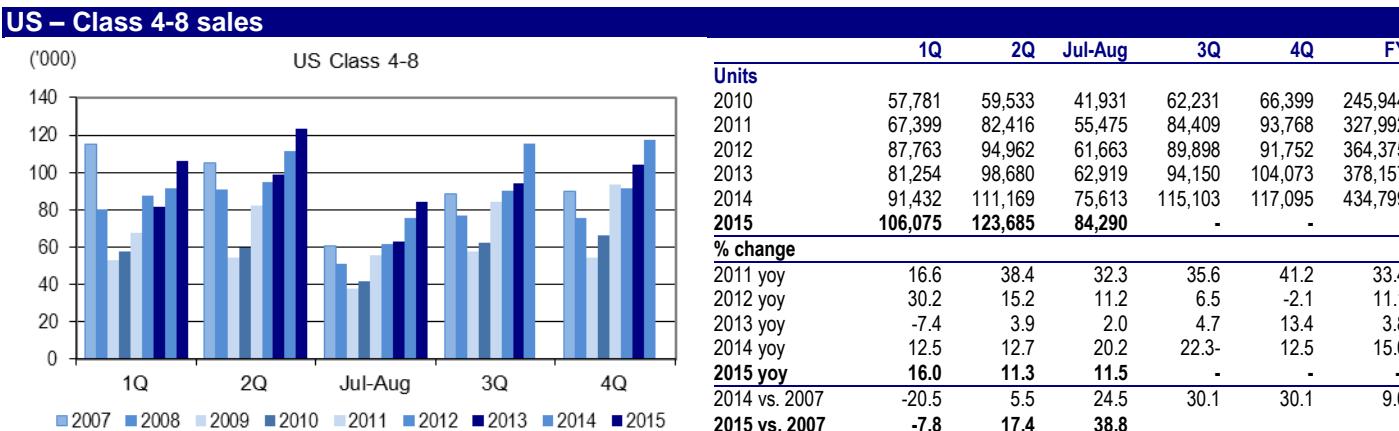
Source: Automotive News Data Center, CGI calculations

#### US – Class 8 sales by manufacturer (FY14)



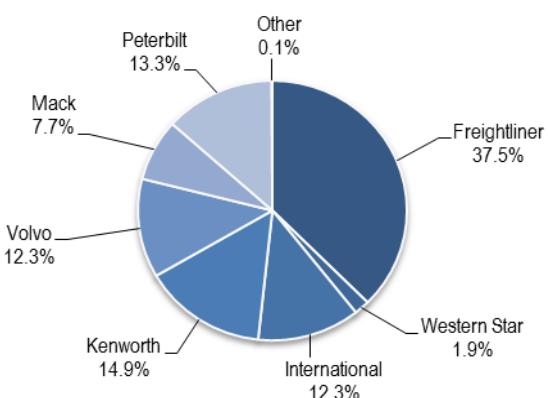
Source: Automotive News Data Center, CGI calculations

Source: Automotive News Data Center, CGI calculations



Source: Automotive News Data Center, CGI calculations

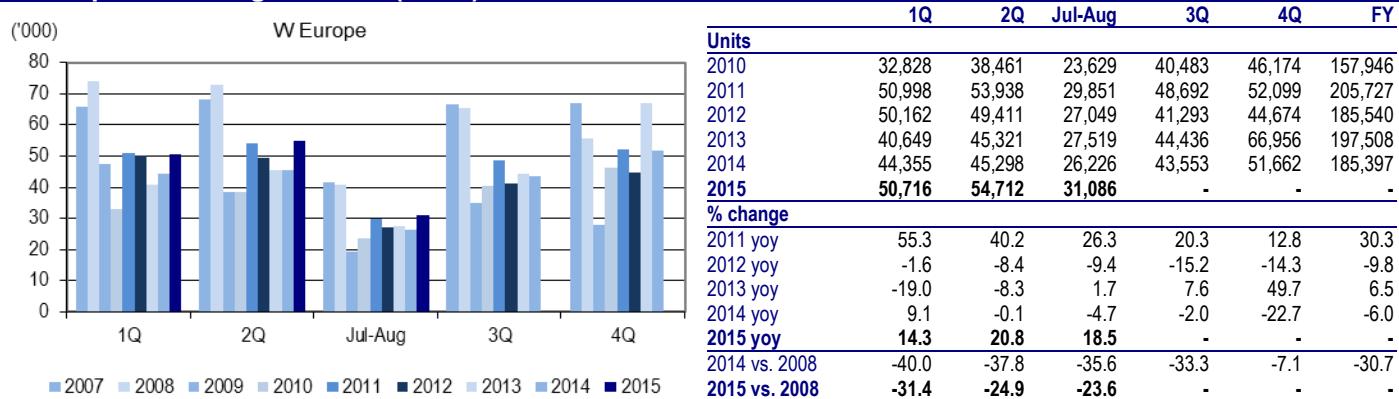
#### US – Class 8 sales by manufacturer (Jan-Aug'15)



Source: Automotive News Data Center, CGI calculations

## Europe heavy truck markets

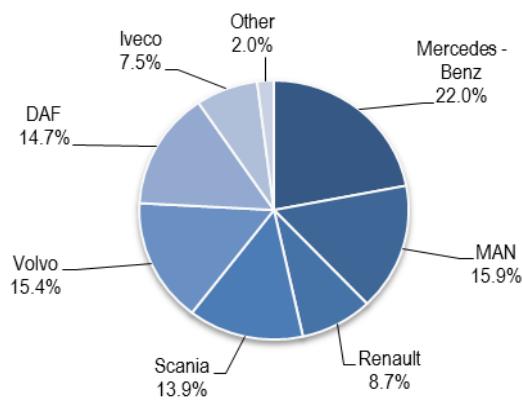
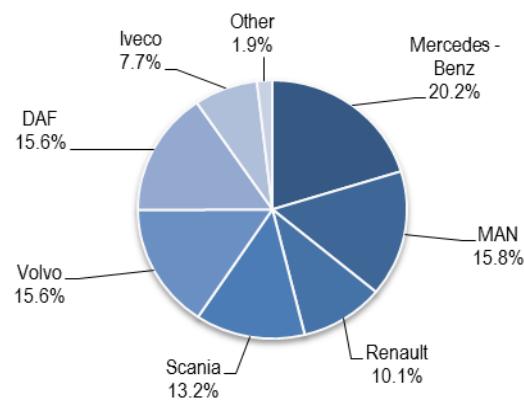
### W Europe – truck registrations (>=16t)



Source: ACEA, CGI calculations

Source: ACEA, CGI calculations

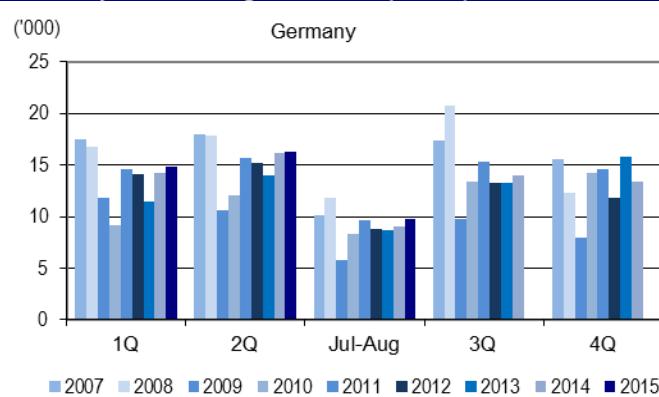
### W Europe – truck registrations by manufacturer (FY12) W Europe – truck registrations by manufacturer (FY13)



Source: Association Auxiliaire de l'Automobile, CGI calculations

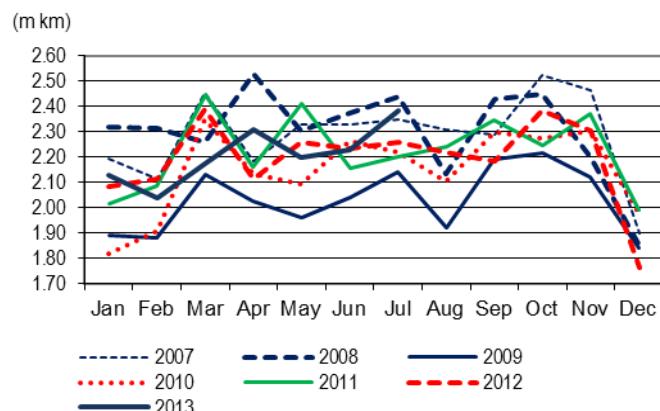
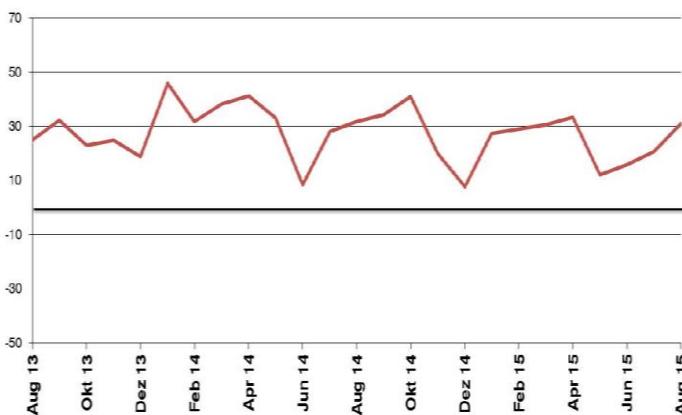
Source: Association Auxiliaire de l'Automobile, CGI calculations

### Germany – truck registrations (>=16t)

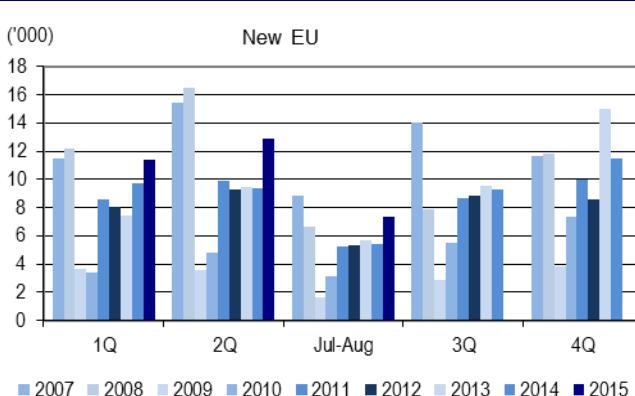


Source: ACEA, CGI calculations

Source: ACEA, CGI calculations



### New EU<sup>1</sup> – truck registrations (>=16t)



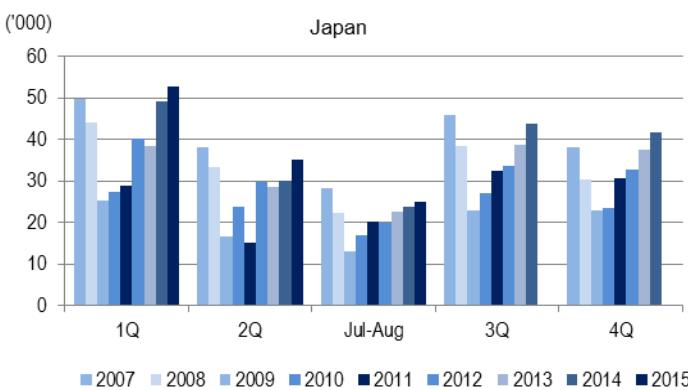
Units	1Q	2Q	Jul-Aug	3Q	4Q	FY
2010	3,384	4,779	3,116	5,509	7,351	21,023
2011	8,594	9,912	5,252	8,693	10,016	37,215
2012	8,020	9,333	5,324	8,811	8,585	34,749
2013	7,468	9,505	5,698	9,513	14,990	41,476
2014	9,737	9,365	5,456	9,320	11,500	40,013
<b>2015</b>	<b>11,430</b>	<b>12,912</b>	<b>7,336</b>	-	-	-
<b>% change</b>						
2011 yoy	154.0	107.4	68.5	57.8	36.3	77.0
2012 yoy	-6.7	-5.8	1.4	1.4	-14.3	-6.6
2013 yoy	-6.9	1.8	7.0	8.0	74.6	19.4
2014 yoy	30.4	-1.5	-4.2	-2.0	-23.3	-3.5
<b>2015 yoy</b>	<b>17.4</b>	<b>37.9</b>	<b>34.5</b>	-	-	-
2014 vs. 2008	-20.3	-43.2	-17.9	18.7	-2.6	-17.3
<b>2015 vs. 2008</b>	<b>-6.5</b>	<b>-21.6</b>	<b>10.4</b>	-	-	-

(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)



Units	1Q	2Q	Jul-Aug	3Q	4Q	FY
2010	27,512	23,701	16,822	27,029	23,455	101,697
2011	28,993	15,094	20,350	32,598	30,605	107,290
2012	40,273	29,714	19,791	33,645	32,727	136,359
2013	38,568	28,572	22,489	38,666	37,466	143,272
2014	49,245	30,085	23,711	43,732	41,753	164,815
<b>2015</b>	<b>52,737</b>	<b>35,252</b>	<b>24,859</b>	-	-	-
<b>% change</b>						
2011 yoy	5.4	-36.3	21.0	20.6	30.5	5.5
2012 yoy	38.9	96.9	-2.7	3.2	6.9	27.1
2013 yoy	-4.2	-3.8	13.6	14.9	14.5	5.1
2014 yoy	27.7	5.3	5.4	13.1	11.4	15.0
<b>2015 yoy</b>	<b>7.1</b>	<b>17.2</b>	<b>4.8</b>	-	-	-
2014 vs. 2008	11.3	-9.8	6.7	13.3	37.0	12.4
<b>2015 vs. 2008</b>	<b>19.1</b>	<b>5.6</b>	<b>11.8</b>	-	-	-

Source: JAMA, CGI calculations

Carlo R Besenius, CEO & Head of Global Strategy  
**[cbesenius@cg-inv.com](mailto:cbesenius@cg-inv.com)**  
 office: +352 2625 8640  
 mobile: +352 691 106 969  
 Luxembourg/Europe

Steve Gluckstein, Global Strategist  
**[sgluckstein@cg-inv.com](mailto:sgluckstein@cg-inv.com)**  
 office: 212 939 7256  
 mobile: 732 768 8843  
 New York, NY, USA

Sabine CJ Blümel, Head of Global Automotive Research  
**[sblumel@cg-inv.com](mailto:sblumel@cg-inv.com)**  
 office: +44 7785 301 588  
 London, UK

Marc Peters, Head of Global Industrial Strategy  
**[mpeters@cg-inv.com](mailto:mpeters@cg-inv.com)**  
 office: +352 26 25 86 40  
 mobile: +352 621 36 44 50  
 Luxembourg/Europe

Feliks Lukas, Director of Industrial Consulting  
**[flukas@cg-inv.com](mailto:flukas@cg-inv.com)**  
 office NY: 212-939-7256  
 mobile: +385 9848 8951  
 Kastela, Croatia

Allison M Cimon, Director of Sales & Technology  
**[amcimon@cg-inv.com](mailto:amcimon@cg-inv.com)**  
 office: 646 228 4321  
 Boston, MA, USA

Gary Schieneman, Director, Global Accounting and Finance  
**[gschieneman@cg-inv.com](mailto:gschieneman@cg-inv.com)**  
 office: 917 868 6842  
 New York, NY, USA

Jennifer Crisman, COO  
**[jcrisman@cg-inv.com](mailto:jcrisman@cg-inv.com)**  
 office: + 352 2625 8640  
 Luxembourg/Europe

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