

Weekly guidebook for the global investor



Macro viewpoint: Debunking five myths

We identify and rebut the following five myths:

1. The first quarter GDP report says no recession
2. The April employment report was benign
3. The Fed is done and the next move is to hike
4. The credit crunch is over
5. Housing looks set to stabilize

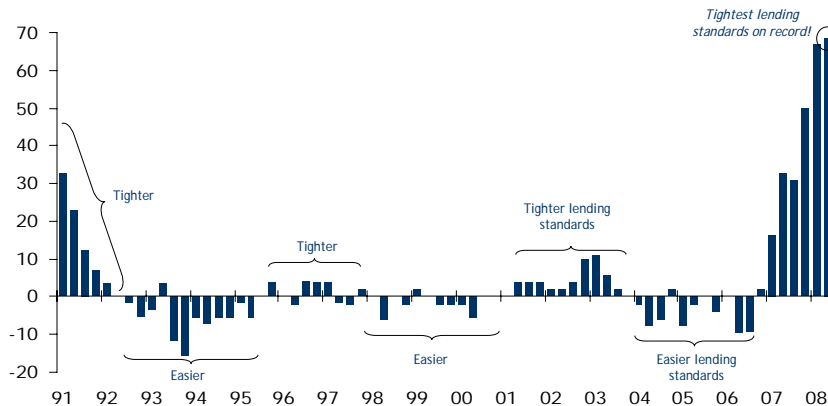
The week ahead: Retail sales & consumer prices due up

The week ahead is *jam-packed* with top-tier economic data releases plus a plethora of Fed officials discussing the economic outlook. Retail sales and consumer price data for April are the highlights.

There is a staggering 12 Fed officials scheduled to speak next week. Those addressing monetary policy include: Cleveland Fed President Pianalto, San Francisco Fed President Yellen, Kansas City Fed President Hoenig (*voter*), Dallas Fed President Fisher (*voter*) and Chicago Fed President Evans.

Tightest Mortgage Standards On Record

Fed Sr Loan Officer Survey: Bank tightening standards for mortgages to individuals (percent)



*In the latest survey, the residential mortgages lending standard was separated into 3 questions: prime (which came in at 62.3%), nontraditional (at 75.6%), and subprime (at 77.7%). Total is weighted sum of lending policy and demand responses for Prime, Nontraditional and Subprime loans, combined according to the share of banks reporting each characteristic.

Source: Federal Reserve Board, Haver Analytics, Merrill Lynch

David A. Rosenberg +1 212 449 4937
North American Economist
MLPF&S
david_rosenberg@ml.com

Sheryl King +1 212 449 2527
Economist
MLPF&S
sheryl_king@ml.com

Jacob Oubina +1 212 449 4618
Macro Economist
MLPF&S
j_oubina@ml.com

Neil Dutta +1 212 449 9527
Economist
MLPF&S
indraneil_dutta@ml.com

Table of contents

Macro Viewpoint	2
Key market movers	6
Merrill Lynch proprietary indicators	12
Debt Issuance/Policy Speakers	13
Economic Forecasts Table	14
Rolling Calendar	16

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 17.

Macro viewpoint

Debunking five myths

1. The first quarter GDP report says no recession

In our view, the folks that are relying on the “plus” sign in front of that first quarter 0.6% GDP number as a sign that we dodged the recession bullet, we believe, are not correctly interpreting the data. First, the really important attribute in the GDP data was the fact that for the first time in 17 years, real final domestic demand contracted (-0.4% at an annual rate). Such a decline happens basically 10% of the time – a 1-in-10 economic event that the markets are whistling by right now. Large swaths of GDP are contracting – consumer spending on durables and semi-durables, housing, nonresidential construction and capex. Not everything is going down – selected services such as health care and dollar-plays like exports are still hanging in.

Past recessions have started even when GDP was positive

But to suggest that the economy is not in recession because of a fractional GDP increase is an assertion that has little empirical support. In fact, recessions officially started in both 1980Q1 and 1990Q3 and guess what? Both quarters saw real GDP increase, not decline – the contraction came the following quarter (as we now expect to see happen). Not only that, but the initial GDP report in the first quarter of 2001 – the onset of the last recession – was estimated +2% at an annual rate (it has since been revised to -0.5% – which is why the NBER, unlike the media, don’t place as much emphasis on GDP when it makes the recession call).

All four factors to make the recession call have peaked

To reiterate, what the National Bureau of Economic Research (NBER) monitors to date the recessions are (i) employment; (ii) real personal income less transfer receipts; (iii) industrial production; and (iv), real manufacturing and trade sales. Employment peaked in December/07. Real income peaked in September/07. Production peaked in January/08. Real sales peaked in October/07. So, it is still reasonable to believe that the recession started some time between September and January.

2. The employment report was benign

Companies are cutting hours aggressively

While companies did not cut as many positions as we expected, they cut the hours instead. The average work week plunged 0.3% (and, aggregate hours worked were down at an annual rate of 1% in the past three months), which, by the way, would be the equivalent of 400,000 job cuts. This is a sign that labor market conditions and domestic demand are far softer than the headline suggests. What drives consumer spending inevitably is income growth. Average weekly earnings fell 0.2% sequentially in April in what was the largest decline in two years. This dragged the year-on-year rate down to 3.1% from 3.3% in March, 3.7% in February and the nearby peak of 3.8% posted last November in what is clear disinflationary trend in wages.

The rebound in the Household survey was all in part-time employment

While there was a nice rebound in the Household Survey, it was all in part-time employment – that is not the driver of confidence and spending. Growth in full-time jobs is what drives those things. And, full-time employment actually fell 375,000 in April and is down 572,000 year-to-date; of the folks who were working part-time in April, the number doing so because of “economic reasons” (mostly slack business conditions) surged 306,000 or 6.3% – again the steepest runup in two years. The diffusion indices fell through the floor to 45.4 in April from 48 in March – this measures the share of industries adding to payrolls and shows that even though the headline job loss was lower than expected, the decline was very broadly based across sectors.

3. The Fed is done and next move is to hike

The Fed expects economy to remain soft for quarters not months

While the Fed did strongly hint that it will very likely go on hold for the next few months, the notion that the central bank is anywhere close to where the Fed futures contracts are in terms of making its next move a hike – not just one, but almost four tightenings through 2009 – should be laid to rest as the overall tilt was still toward providing monetary accommodation if there is to be next move at all. What the Fed really did last week was tone down its concerns over the macro outlook, but at the same time, if it were truly convinced that a durable recovery was in the offing, it would not have left in the refrain that “tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters”. Notice that the Fed uttered the word “quarters”, not “months” to describe the period in which they expect the economy to remain soft, even as activity responds to the fiscal and monetary stimulus.

The Fed’s job is still not totally done

The Fed left in what we call “easing bias light” – saying that it will “act as needed” to promote sustainable growth economic growth and price stability. This is a hint that it still believes that if there is a next move(s), it will be a cut, not a hike. We hold to the view that even though the easing cycle, by definition, is in its mature phase, the Fed’s job is still not totally done. What we have learned from post-bubble de-leveraging cycles, in the not-too-distant past, is that the short and shallow recessions are typically followed by tepid recoveries that coincide with rising unemployment rates, declining industry operating rates and accelerating deflationary pressures. This was the story in 1992 and 2002 and in both post-recession years, keeping in mind that these were asset cycles, the Fed may have moved to the sidelines a most of the meetings, but they still cut rates nonetheless.

4. The credit crunch is over

Is that a fact? So why do you think the Fed has added asset-backed securities to the list of eligible collateral? To be accepting student loans less than a week after President Bush addressed the issue in his recent address speaks volumes. The real kicker is the Fed accepting credit card ABS – seemingly in response to the difficulty the banks are experiencing in terms of securitizing their card loans – and because of the nature of credit card ABS, old deals “return” to the balance sheet unless the related loans can be re-securitized. None of these banks can afford the capital hit (both balance and loan loss reserve related) of additional balance sheet loans – especially credit cards with 4%+ provisions.

The Fed is degrading its balance sheet in these rescue operations

So, what the Fed has managed to do in its latest intervention is to come up with a way for the banks to keep securitizing credit card loans at a time where there is no securitization market. How the markets and the media treat this as a positive is a true mystery – the Fed is basically degrading its balance sheet in these rescue operations. FASB has all but put the world on notice that more capital will be related to securitization transaction no matter what. The capital that has been raised to date, in contrast to a show of strength, which is the market's perception, really just underscores the scale of the credit problems – and not just limited to subprime mortgages.

Investors may be underestimating the impact of recession, in our view

We continue to hold the view that investors may be significantly underestimating the impact of a recession let alone the kind of consumer downturn that lies ahead. Even if the capital that has been secured thus far proves to be sufficient to cover for these future losses, what about the enhanced capital needs for securitization transactions and derivatives? If the regulators are going to adequately address their current “too interconnected to fail” concerns. No bank balance sheet is prepared for this; nor is it obvious that dealer banks are being valued on earnings that reflect the regulatory future will likely no longer involve the 30-to-1 leverage ratios of the present and past.

The impact on global growth rates?

Obviously, without capital and leverage, credit must be constrained. And, that will mean the need for the Fed to keep interest rates at lower levels, not higher levels, than would otherwise have been the case. We have not changed our fundamental views that bond yields will be moving down to cycle lows in coming months/quarters, and that corrections should be viewed as opportunities to augment the portfolio with safe yield.

Conditions in the subprime mortgage market continue to deteriorate

Meanwhile, conditions in the subprime mortgage market continue to deteriorate: for the typical subprime mortgage issued between the second half of 2005 and the first half of 2007 (when lending standards were at their most lax), between 25% and 40% of borrowers on average are more than 60 days behind on their payment. If there is a possible silver lining, it is that the delinquency rate for the 2005 vintage has stabilized now (at *only* 30% for four months in a row).

Moreover, the asset-backed commercial paper market contracted by \$17.7 bln last week and \$36.6 bln over the past month. Libor, the TED spread and credit default swaps are still at abnormal levels. Not only that, but in a sign that not all of the credit problems are out of the way, the ratings of ResCap, GMAC and Countrywide Financial were all slashed last Friday.

5. Housing looks set to stabilize

Inventory situation has gone from bad to worse

After all, the homebuilding stocks are up more than 10% so far this year, so something good is obviously getting priced in by someone. But as we highlighted recently in our report, [*The never ending story*](#), the inventory situation in the residential real estate market is going from bad to worse. The Census Bureau's all-inclusive inventory data were released for the first quarter and showed that the total number of single-family and condominium units that are vacant and for sale rose 4.5% or at a near-20% annual rate – for the second quarter in a row – to a record 2.277 million units. The 'frictional' or normalized level is closer to 1.2 million, so this represents a 1.3 million deviation from what is normal. At current sales rates, it would take almost two years to absorb that excess inventory backlog. Alternatively, single-family housing starts will have to slide a further 25% from their already-depressed levels and test their all-time lows of around 500,000 and stay there for a good four years. Either way, we are probably much further away from the bottom in starts and prices than is generally perceived – judging by the intractable unsold inventory backlog, the downturn could well last through to 2010.

[David Rosenberg](#), Chief North American Economist, Merrill Lynch, +1 212 449 4937

Key market movers

The week ahead

Loads of data and Fed speak on tap

The week ahead is *jam-packed* with top-tier economic data releases plus a plethora of Fed officials discussing the economic outlook. Retail sales and consumer price data for April are the highlights. We expect retail sales to register a 0.6% decline in the headline, as weakness in the automotive sector will weigh heavily on the number. The *control* measure (which excludes auto dealers, gasoline, and building materials) will probably post a flat MoM result.

Inflation likely to remain benign

Consumer prices are poised to increase a modest 0.2% on the headline, while core prices are likely to increase a modest 0.1%. This will take the YoY rate for core down to 2.3% from 2.4%. We still expect core inflation to moderate toward 1.8% annually by the end of the year.

Housing market doldrums to continue

We will also get a fresh batch of housing data with the release of May NAHB and April housing starts. The NAHB index is likely to remain at 20, with builder sentiment depressed on the weak demand backdrop in housing. Housing starts will likely decline to 942k annualized units as the massive inventory overhang – which has failed to respond to lower prices – continues to suggest declines in building activity.

Regional manufacturing indices to paint a mixed picture

Speaking of fresh data, we also get regional manufacturing sentiment numbers for May in the form of the Philly and NY Empire manufacturing indices. We look for the Philly region to continue to be hampered by continued weakness in the housing market. The NY Empire index, on the other hand, will probably post a small increase as sentiment has improved markedly in the tech sector.

Plethora of Fed officials discussing the economy

There is a staggering 12 Fed officials scheduled to speak next week. Those addressing monetary policy include: Cleveland Fed President Pianalto, San Francisco Fed President Yellen, Kansas City Fed President Hoenig (*non-voter*), Dallas Fed President Fisher (*voter*) and Chicago Fed President Evans (*non-voter*). Other notable events include Chairman Bernanke's speech on *Liquidity Measures* and Fed Governor Mishkin's on *Asset Price Bubbles*.

Monday, 12 May

Treasury likely incurred a surplus of \$160 billion in April

Monthly budget statement, April—2:00 pm

	Exp	Cons	Range	History
Budget balance	\$160bn	\$160bn	\$120-190bn	April 2007 = \$177.7bn

Source: Merrill Lynch, Bloomberg

The monthly budget statement is expected to show that Treasury incurred a surplus of \$160 billion in April, from \$178 billion for the same month last year. Non-withheld tax receipts are running about 6% above year-ago levels while withheld taxes look to be up a more modest 3%. Calendar effects wreaked havoc on withdrawals. With April 1, 2007 falling on a weekend and shifting about \$20 billion in withdrawals to March, this makes this year's budget surplus look much weaker than it would've been. Excluding the calendar impact, outlays look to be up about 7% from last year. For 2008 as a whole, we continue to look for a budget deficit of \$525 billion.

Tuesday, 13 May

Import prices look to be unchanged MoM in April after surging in March

Import prices, April—8:30 am

	Exp	Cons	Range	History
Import prices	0.0%	1.7%	-0.2-2.4%	Mar = 2.8% vs. Feb = 0.2%

Source: Merrill Lynch, Bloomberg

Import prices look to be unchanged MoM in April after surging 2.8% the previous month. This will take the YoY rate down to 13.2% from a record setting 14.8% previously. The heavily weighted industrial supplies and materials component is expected to register a *flattish* read, as commodities such as crude oil and metals were down sharply in the survey period (the BLS compares the price on the first of the month to that same period in the prior month). We expect a sizeable increase in food prices driven by a surge in livestock products while other components should see modest trend-like increases. The moderate increase in April, however, is expected to be fully reversed in May as commodity prices rocketed to new highs.

The *retail control* measure which feeds into PCE looks to come in flat

Retail sales, April—8:30 am

	Exp	Cons	Range	History
Retail sales	-0.6%	-0.2%	-0.9-0.5%	Mar = 0.2% vs. Feb = -0.4%
Excluding autos	-0.2%	0.2%	-0.5-0.6%	Mar = 0.1% vs. Feb = -0.1%

Source: Merrill Lynch, Bloomberg

Headline retail sales will probably slip 0.6% in April after a modest 0.2% increase in March. The sharp decline in unit auto sales is expected to weigh heavily on the number, as light vehicle sales slipped more than 4% on the month. Excluding autos, we look for a 0.2% pullback, which will be driven by a dip in gasoline station receipts as prices eased back about 1% on the month in seasonally adjusted terms. The *retail control* measure, which feeds into PCE looks to come in flat on the month.

We expect continued weakness in housing related areas such as furniture sales, while general merchandise stores likely rebounded. Indeed, monthly chain-store sales for April were running at 3.6% YoY after a negative run-rate last month. While some of this increase is likely due to a calendar effect, it is a strong result nonetheless. We look for consumer spending for 2Q as a whole to come in at a tepid 0.3% as the headwinds from higher gasoline prices, a weak employment backdrop, and continued declines in home values will more than offset any stimulus from the tax rebates.

Business inventories likely rose a modest 0.1% MoM in March

Business inventories, March—10:00 am

	Exp	Cons	Range	History
Business inventories	0.1%	0.5%	0.1-0.9%	Feb = 0.6% vs Jan = 0.9%

Source: Merrill Lynch, Bloomberg

Business inventories likely rose a modest 0.1% MoM in March, following three months of outsized gains. The already released wholesale inventories data registered a 0.1% monthly decline while manufacturing stockpiles jumped 0.9%. We expect the retail component to come in at -0.5% MoM on a sharp decline in auto inventories. The idling in auto production caused by the strike at American Axle and better than expected sales likely led to a significant drawdown in inventories in this space. Excluding the automotive component, we expect retail inventories to show a 0.2% increase, as the cautious outlook for the retail environment discourages any major inventory building.

Wednesday, 14 May

We look for headline CPI to register a modest 0.2% MoM increase in April and core CPI to be up a mild 0.1%

Consumer prices, April—8:30 am

	Exp	Cons	Range	History
CPI	0.2%	0.3%	0.1-0.7%	Mar = 0.3% vs Feb = 0.0%
Core CPI	0.1%	0.2%	0.1-0.3%	Mar = 0.2% vs Feb = 0.0%

Source: Merrill Lynch, Bloomberg

We look for headline CPI to register a modest 0.2% MoM increase in April, taking the YoY rate to 3.8% from 4.0%. Energy prices should be tame, at just 0.1%, while food prices look to increase another sizeable 0.4%. Gasoline prices look to decline about 1% in seasonally adjusted terms as the seasonal factor is expecting a more robust increase than the 6.5% jump we actually got. Food is expected to trend higher as elevated agricultural prices continue to feed through to consumer prices. Core CPI (excluding food and energy) is estimated to register a mild 0.1% increase, with the YoY rate trending lower to 2.3% from 2.4%.

Owner's equivalent rent – a very large component in core CPI – looks to be up just 0.2% as natural gas prices continued to firm over the past few months. Utility costs are subtracted from OER and thus higher costs actually act as an antidote here. Motor vehicle prices should decline as dealers continue to struggle with a very weak retail environment. Other goods should also see some deflationary pressure as retailers rev up discounts in an effort to attract interest from those who will be receiving tax rebate checks in the mail. For 2008 as a whole, we look for core consumer prices to ease back to a 1.8% YoY rate – well within the Fed's comfort zone.

Thursday, 15 May

Initial jobless claims are expected to tick a touch higher to 367k

Initial jobless claims, week ending 05/10/08—8:30 am

	Exp	Cons	Range	History
Initial jobless claims	367k	370k	350-380k	May 3rd = 365k

Source: Merrill Lynch, Bloomberg

Initial jobless claims are expected to tick a touch higher to 367k in the week ending May 10, after slipping to 365k the prior week. This would take the 4-week moving average down to 365k from 367k and still consistent with modest payroll declines. The second week of May typically sees a decline of 16k in non-seasonally adjusted claims. Given the weaker than *typical* employment environment, however, we believe the decline will be less pronounced. Continuing claims should continue to remain elevated – above the 3.0 million mark – and pressure the unemployment rate upwards.

The New York Empire manufacturing index likely improved modestly in May

NY Empire manufacturing index, May—8:30 am

	Exp	Cons	Range	History
NY Empire	2.0	0.0	-10-10	Apr = 0.6 vs. Mar = -22.2

Source: Merrill Lynch, Bloomberg

The New York Empire manufacturing index likely rose to 2.0 in May from 0.6 in April and the March record low of -22. This index is heavily tech weighted and it is clear that market sentiment has improved in this space. In fact, the S&P 500 information technology index is up nearly 10% since the release of the April Empire survey. This is also a sector that has a heavy global exposure. And, as a result, it is likely to benefit from the weakness in the US dollar and resilient global growth. Orders for computers and electronic products have suffered declines recently and we expect they could be poised for a rebound. Prices paid is likely to continue rising, stemming primarily from the increasing price of energy.

Net foreign purchases of US long-term securities probably rose to \$90 billion

Net foreign purchases of US long-term securities, March—9:00 am

	Exp	Cons	Range	History
TIC flows	\$90bn	\$62.5bn	\$55-90bn	Feb = \$72.5bn vs Jan = \$57.1bn

Source: Merrill Lynch, Bloomberg

Net foreign purchases of US long-term securities probably rose to \$90 billion in March after a \$72 billion print in February. Federal Reserve custody data registered a \$20 billion increase in government and agency securities held for foreign accounts and we think most of this will be reflected in the TIC numbers. Net equity flows could see some pullback after a modest \$6 billion result in February as stock prices fell nearly 3% on the month. The TIC data should begin to ease back in the months ahead, bringing it more in line with the trade balance.

Industrial production is poised to slip 0.1% in April on declines in manufacturing

Industrial production and capacity, April—9:15 am

	Exp	Cons	Range	History
Industrial production	-0.1%	-0.3%	-0.8-0.2%	Mar = 0.3% vs Feb = -0.7%
Capacity utilization	80.2%	80.1%	79.8-80.7%	Mar = 80.5% vs Feb = 80.3%

Source: Merrill Lynch, Bloomberg

Industrial production is poised to decline 0.1% MoM in April after a 0.3% increase in March. Manufacturing production is expected to ease back 0.3% on a sharp decline in motor vehicle production (as the American Axle strike continued in April) and a significant pullback in aggregate manufacturing hours. High tech manufacturing should remain a bright spot, however. Mining is likely to increase once again, as global demand for metals remains firm. The utilities component is also expected to increase, with electricity output rising on the month and natural gas distribution likely to tick higher as this was a relatively cold April. On our forecast, capacity utilization will ease back to 80.2% from 80.5% with manufacturing capacity falling to 78.1% from 78.5%.

Philly Fed is expected to remain deep in negative terrain in May

Philadelphia Fed manufacturing index, May—10:00 am

	Exp	Cons	Range	History
Philly Fed index	-22.0	-19.0	-28-5	Apr = -24.9 vs. Mar = -17.4

Source: Merrill Lynch, Bloomberg

The Philly Fed manufacturing index is expected to remain deep in negative terrain at -22 in May after a -25 print last month. The headline differs from ISM in that it is not a weighted average of the subcomponents but rather a sentiment question on its own. Given that this region is heavily influenced by the goings on in the housing market, we believe it is set for another gloomy outcome. Indeed, sentiment on the housing market has deteriorated with the Philly Home Builders equity index falling more than 2% on average so far this month. This latest leg-down is likely to weigh heavily on the region. New orders and shipments likely remained deep in negative territory as demand continues to wane. Weaker activity will also result in feeble reads for the employment and inventory components as well. Prices paid will remain elevated as commodity prices continued to trend higher on the month.

The NAHB housing market index probably remained at 20 in May

NAHB housing market index, May—1:00 pm

	Exp	Cons	Range	History
NAHB index	20	20	18-23	Apr = 20 vs. Mar = 20

Source: Merrill Lynch, Bloomberg

The National Association of Home Builder's housing market index probably remained at 20 in May, just shy of its all-time low of 18. The Fed's latest Senior Loan Officer Survey showed that lending standards for residential mortgages are now the tightest on record, which means it is getting increasingly difficult for a prospective homebuyer to obtain funding. Meanwhile, while home prices are deflating at a record pace across the nation, they have failed to put a dent in the inventory overhang. Months' supply for new single-family homes hit a 27-year high and, to top it off, it is taking builders 7.5 months to move a home off the market once its been completed. That is up 36% against year-ago levels. This reality is likely to keep builder sentiment depressed for some time.

Friday, 16 May

Housing starts are expected to slip 0.5% MoM in April to just 942k units

Housing starts and permits, April—8:30 am

	Exp	Cons	Range	History
Housing starts	942k	940k	875-985k	Mar = 947k vs. Feb = 1075k
Building permits	910k	917k	880-966k	Mar = 928k vs. Feb = 984k

Source: Merrill Lynch, Bloomberg

Housing starts are expected to slip 0.5% MoM in April to an annualized unit rate of just 942k – the lowest pace since March 1991. Builders probably cut back production as the recent home price capitulation has had no effect on the massive inventory overhang. Indeed, the inventory situation actually worsened to a 27-year high in March at 11.0 months' supply. Tight lending standards continue to limit funding for prospective buyers, while those that would be approved are likely sitting on the fence as home prices are widely expected to continue falling. Building permits are expected to fall a more pronounced 2% on the month as they are quicker to adjust to the weakening environment. Further precipitous declines in housing starts and permits will be necessary if the inventory dilemma is to be resolved.

Consumer sentiment is likely to dip in May, as consumer purchasing power continues to get pinched

University of Michigan index of consumer sentiment, May (P)—10:00 am

	Exp	Cons	Range	History
Consumer sentiment	60.0	62.5	58.5-66.4	Apr = 62.6 vs. Mar = 69.5

Source: Merrill Lynch, Bloomberg

The University of Michigan index of consumer sentiment is likely to dip to 60.0 in the May preliminary release from April's 62.6 level. That would be the lowest level since May 1980. One of the reasons we expect confidence to continue declining is because of the continued run-up in the price of retail gasoline. In fact, the price for regular unleaded gasoline just hit a record high of \$3.65 a gallon and is up more than 5% against the April average. This is pinching consumer purchasing power and comes at a time when private nonfarm payrolls have contracted for five consecutive months. We suspect that the deteriorating conditions in the labor market will offset any potential upside risk stemming from the equity markets, which have been rising as of late. In fact, the ABC News weekly consumer confidence numbers continue to carve out fresh cycle lows and are running at levels not seen in 15 years and that strongly suggests we will see a lower level on the U of M index this month.

Jacob Oubina, Economist, MLPF&S, +1 212 449 4618

Neil Dutta, Economist, MLPF&S, +1 212 449 9527

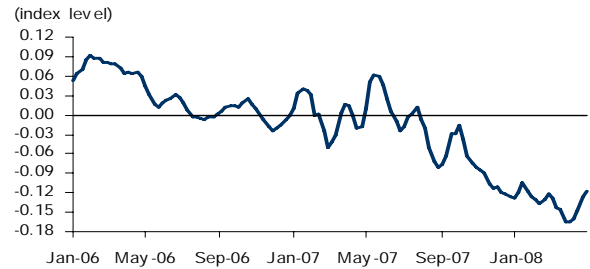
Merrill Lynch proprietary indicators

The Merrill Lynch production index



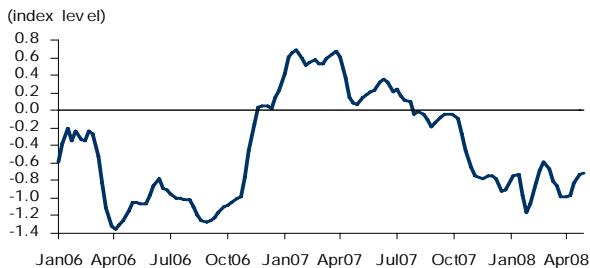
Our production index fell for the first time in four weeks. We saw declines across most of the components. Truck production fell for the first time in four weeks, dropping 6.1%. Meanwhile, auto production dropped 1.9% after rising for four weeks in a row. Raw steel production dropped for the ninth consecutive week, falling 0.6%. Coal production declined for the second week in a row, dropping 0.3% on top of a 2.9% decline last week. Electrical production continued a string of declines, dropping 1.2% in the latest week. And, railcar loadings fell 0.5%, the second consecutive decline. The only component to show any signs of the life this week was crude oil production, which rose 0.3% after coming in flat last week.

The Merrill Lynch consumer index



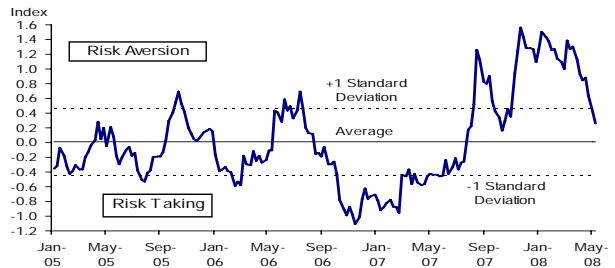
Our consumer index rose for the fifth consecutive week to its highest level since the end of January. However, despite this latest development, the index continues to reflect a weak consumer. Of vital importance to the consumer, is the health of the labor market and it continues to deteriorate. The four-week moving average on initial jobless claims rose in the latest week. Meanwhile, the four-week moving average on continuing claims has been rising continuously since February; this suggests it's getting tougher for the unemployed to find work. And, with the concerns of consumers shifting to the labor market, it wasn't surprising to learn that consumer confidence hit another fresh 15-year low. Finally, the lagged effects of crude oil prices continue to bite. Crude oil prices have been running north of \$100 a barrel since March.

The Merrill Lynch housing index



Our housing index rose for the fourth week in a row but is entering its tenth consecutive month in negative territory, and reflects that housing is not close to bottoming. We have seen a meaningful pullback in the demand for homes. The MBA's purchase index continues to run below its one-year average. Credit conditions continue to remain tight as well, with real estate loans from commercial banks running below their one-year trend. Moreover, the rates on 30-year conventional mortgages are roughly where they were a year ago, suggesting that the Fed's interest rate cuts have not filtered down to the private sector. Finally, the labor market backdrop remains weak. The four-week moving average on continuing claims is at its highest level since mid-2004 and suggests a rising level of unemployment going forward.

The Merrill Lynch financial stress index



Our financial stress index fell in the latest week to its lowest level since October 2007 and, at less than one standard deviation away from its long-run average, is within risk-neutral territory. Credit spreads have narrowed in the latest week. Baa spreads have narrowed to levels not seen since last November and two-year swap spreads have dropped for the third consecutive week. TED spreads narrowed as well. The VIX index, which measures equity market volatility, remains below its one-year average. And, we saw investors continue to rotate into riskier sectors in the equity market; tech has outperformed consumer staples for the last three weeks. We did see some signs of risk aversion this week, however. Gold, a classic safe-haven asset, rose but still remains off the highs we saw earlier this year.

Neil Dutta, Economist, MLPF&S, +1 212 449-9527

Debt issuance

Treasury financing (billions of \$)

Announcement date	Auction date	Settlement date	Issue	Size	New cash
Apr-30	May-7	May-15	10-year note	15.0	(5.7)
Apr-30	May-8	May-15	30-year bond (R)	6.0	6.0
May-8	May-12	May-15	3- & 6-month#	47.0	4.0
May-12	May-13	May-15	1-month	28.0	20.0
May-12	May-13	May-15	CMB 6/16	45.0	45.0
May-15	May-19	May-22	3- & 6-month	44.0	1.0

* Estimate. () = Paydown. (R) = Reopening. CMB = Cash Management Bill.
Source: Bloomberg, U.S. Treasury, Merrill Lynch

Agency financing (billions of \$)

Announcement date	Auction date	Settlement date	Issue	Size
May-9	May-12	May-13	FRE 3-month	
May-9	May-12	May-13	FRE 6-month	
May-12	May-14	May-15	FNM 3-month	
May-12	May-14	May-15	FNM 6-month	
May-13	NA	NA	FNM Benchmark notes	
May-19	May-21	May-22	FRE 3-month	
May-19	May-21	May-22	FRE 6-month	

FRE = Freddie Mac, FNM = Fannie Mae, (R) = Reopening
Source: Bloomberg, Freddie Mac, Fannie Mae.

Policy speakers

Key speaking engagements and news events*

Monday, May 12	9:15 am	Chicago Fed President Evans (non-voter) Speaks About U.S. Economic Outlook in Illinois
	7:15 pm	Atlanta Fed President Lockhart (non-voter) to Speak at Financial Markets Conference
Tuesday, May 13	6:10 am	Cleveland Fed President Pianalto (voter), ECB's Noyer Speak on Monetary Policy in Paris
	8:20 am	Chairman Bernanke Speaks on Liquidity Measures to Conference
	9:15 am	Governor Warsh Moderates Discussion on Sarbanes-Oxley Act
	11:00 am	Philadelphia Fed President Plosser (voter) Moderates Discussion on Fair Disclosure
	1:00 pm	San Francisco Fed President Yellen (non-voter) Speaks on U.S. Economic Outlook at Vancouver Conference
	1:00 pm	Kansas City Fed President Hoenig (non-voter) Speaks in Oklahoma City on Economic Outlook
	1:30 pm	Dallas Fed President Fisher (voter) Speaks About Fed & Economy in Midland, Texas
	8:00 pm	Chicago Fed President Evans (non-voter) Speaks About Economy at Chicago Reception
Wednesday, May 14	8:30 am	Boston Fed President Rosengren (non-voter) Speaks on Basel II at Boston Conference
	9:15 am	Governor Kroszner Speaks on Basel II, Operational Risk in Boston
	12:00 pm	Atlanta Fed President Lockhart (non-voter) to Speak at Financial Markets Conference
	4:40 pm	San Francisco Fed President Yellen (non-voter) Speaks About 'Behind Scenes at FOMC Meeting' in Tacoma
Thursday, May 15	9:15 am	Chicago Fed President Evans (non-voter) Gives Welcoming Remarks at Banking Conference
	9:30 am	Chairman Bernanke Speaks on Banking Risk Management in Chicago
	10:50 am	New York Fed's Dudley, BofA's Price Speak at Chicago Fed Panel
	7:00 pm	Governor Mishkin Speaks on Asset Price Bubbles in Philadelphia
Friday, May 16	11:20 am	Fed's Braunstein, Goldman's Hatzius Speak on Mortgage Market

*Time and date subject to change
Source: Bloomberg, Market News, Merrill Lynch

Economic forecast summary

Real Economic Activity, % SAAR	4Q2007	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2Q2009	3Q2009	4Q2009	2007	2008F	2009F
Real GDP	0.6	1.1	-0.5	-0.1	-0.5	-0.2	1.5	2.5	2.6	2.2	1.1	0.5
% Change, Year Ago	2.5	2.6	1.5	0.3	0.0	-0.3	0.2	0.8	1.5			
Final Sales	2.4	1.0	0.6	-0.7	-0.5	-0.3	1.8	1.9	2.1	2.5	1.4	0.5
Domestic Demand	1.3	0.1	-0.5	-1.1	-1.6	-1.6	0.9	1.7	2.0	1.8	0.4	-0.4
Consumer Spending	2.3	1.1	0.2	-0.4	-1.5	-0.7	1.5	2.0	2.4	2.9	1.0	0.2
Durables	2.0	-6.0	-7.2	-6.6	-10.0	-1.4	1.0	3.1	3.2	4.7	-3.4	-2.8
Nondurables	1.2	-1.3	0.5	0.3	-4.0	-4.7	1.0	2.0	2.5	2.4	0.0	-1.3
Services	2.8	3.4	1.4	0.5	1.2	1.3	1.7	1.8	2.1	2.8	2.3	1.4
Residential Investment	-25.2	-25.7	-20.0	-22.8	-22.7	-12.0	-2.5	1.0	1.5	-17.0	-22.5	-12.3
Nonresidential Investment	6.0	-1.1	-1.4	-3.5	-0.9	-9.1	-3.2	0.3	1.6	4.7	1.8	-3.5
Structures	12.4	-0.2	-2.5	-6.5	-8.0	-10.0	-5.0	1.0	1.5	12.9	3.6	-5.8
Equipment and Software	3.1	-1.6	-0.9	-2.0	2.5	-8.7	-2.3	0.0	1.6	1.3	0.9	-2.4
Government	1.9	2.1	1.2	1.4	1.7	1.3	1.7	1.4	1.1	2.0	2.1	1.5
Exports	6.5	3.7	4.5	4.5	4.5	4.5	4.3	3.9	3.2	8.1	6.5	4.3
Imports	-1.4	-2.5	-3.0	0.5	-3.4	-4.5	-1.7	2.0	2.2	1.9	-1.3	-1.8
Net Exports (Bil 00\$)	-503.2	-477.6	-446.4	-432.3	-398.9	-359.9	-335.5	-329.9	-327.8	-555.6	-438.8	-338.3
Inventory Accumulation (Bil \$)	-18.3	1.8	-29.2	-9.7	-10.1	-8.8	-18.7	-3.5	8.6	4.6	-11.8	-5.6
Nominal GDP (Bil \$)	14074	14187	14237	14313	14374	14437	14557	14703	14842	13841	14278	14635
% SAAR	3.0	3.2	1.4	2.2	1.7	1.8	3.4	4.1	3.8	4.9	3.2	2.5
% Change, Year Ago	5.1	4.7	3.4	2.5	2.1	1.8	2.2	2.7	3.3			
Key Indicators												
Industrial Production (% SAAR)	0.2	0.0	-0.3	-1.0	-0.8	0.6	1.5	1.7	1.8	1.7	0.5	0.5
Capacity Utilization (%)	81.0	80.6	80.2	79.7	79.2	79.0	79.0	79.0	79.0	81.0	79.9	79.0
Civilian Unemployment Rate (%)	4.8	4.9	5.4	5.7	6.1	6.3	6.3	6.3	6.4	4.6	5.5	6.3
Productivity (% SAAR)	1.8	2.2	-0.7	2.5	1.0	0.5	2.5	3.2	3.0	1.8	2.0	1.6
% Change, Year Ago	2.9	3.2	2.3	1.4	1.2	0.8	1.6	1.8	2.3			
Real Disp. Personal Inc. (% SAAR)	0.1	1.4	15.7	-12.3	0.1	2.2	2.7	2.9	2.7	3.1	2.0	0.9
% Change, Year Ago	2.2	1.2	5.1	0.8	0.8	1.0	-2.0	2.0	2.6			
Personal Savings Rate (%)	0.0	0.2	3.9	1.2	1.6	2.1	2.4	2.6	2.7	0.4	1.7	2.5
Light Vehicle Sales (Millions SAAR)	16.2	15.3	15.0	14.4	14.0	13.8	14.4	14.8	15.1	16.4	14.7	14.5
Housing Starts (Thous. SAAR)	1151	1035	930	790	680	720	780	815	845	1344	859	790
Current Account (Bil \$)	-172.9	-181.2	-167.1	-162.9	-146.0	-131.5	-121.5	-119.4	-119.4	-738.6	-657.3	-491.7
U.S. Budget Balance (Bil \$)										-163	-525	-425
Corporate Profits and Earnings												
Operating Corp. Profits After Tax (Bil \$)	1114.6	1079.2	1013.3	976.9	883.2	966.5	978.7	1007.4	1072.3	1128.6	988.2	1006.2
% Change, Year Ago	3.3	-1.5	-12.1	-15.2	-20.8	-10.4	-3.4	3.1	21.4	2.6	-12.4	1.8
S&P 500 Reported EPS (\$)	7.8	17.0	18.0	13.0	13.3	17.3	18.2	13.5	14.0	66.2	61.2	63.0
% Change, Year Ago	-61.4	-20.4	-18.0	-14.5	70.3	1.8	1.5	4.2	5.3	-18.8	-7.5	3.0
S&P 500 Operating EPS (\$)	15.2	19.0	20.5	18.5	17.0	19.5	21.0	19.0	18.0	82.5	75.0	77.5
% Change, Year Ago	-30.8	-15.1	-14.8	-11.4	11.7	2.6	2.4	2.7	5.9	-5.9	-9.1	3.3
Inflation												
GDP Price Index (% SAAR)	2.4	2.6	1.6	2.2	2.4	1.8	1.3	1.0	1.1	2.7	2.1	1.7
% Change, Year Ago	2.6	2.2	1.9	2.2	2.2	2.0	1.9	1.6	1.3			
CPI, Consumer Prices (% SAAR)	5.0	4.3	2.6	2.9	1.9	1.4	0.8	0.3	0.9	2.9	3.6	1.5
% Change, Year Ago	4.0	4.2	3.7	3.7	2.9	2.2	1.7	1.1	0.8			
CPI ex Food & Energy (% SAAR)	2.5	2.5	1.7	1.9	1.7	1.7	1.5	1.4	1.4	2.3	2.2	1.6
% Change, Year Ago	2.3	2.4	2.3	2.1	1.9	1.7	1.7	1.6	1.5			

Source: Merrill Lynch

Interest rate forecast summary

(% EOP)	4Q 07	1Q 08	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09	4Q 09	2007	2008	2009
Fed Funds	4.25	2.25	2.00	1.75	1.25	1.00	1.00	1.00	1.00	4.25	1.25	1.00
3-Month T-Bill	3.36	1.38	1.25	1.00	1.00	1.00	1.05	1.05	1.10	3.36	1.00	1.10
3-Month LIBOR	4.85	2.95	2.45	2.10	1.95	1.65	1.30	1.30	1.35	4.85	1.95	1.35
2-Year T-Note	3.04	1.62	1.60	1.35	1.10	1.00	1.00	1.10	1.20	3.04	1.10	1.20
5-Year T-Note	3.45	2.46	2.45	2.25	2.00	1.85	1.60	1.65	1.70	3.45	2.00	1.70
10-Year T-Note	4.05	3.45	3.55	3.40	3.25	3.15	2.80	2.75	2.70	4.05	3.25	2.70
30-Year T-Bond	4.45	4.30	4.35	4.20	4.05	3.85	3.40	3.35	3.30	4.45	4.05	3.30

Shaded regions represent Merrill Lynch forecast.
Source: Merrill Lynch

Monthly CPI forecast update

	Total CPI					Core CPI			
	(nsa)			(sa)		(nsa)		(sa)	
	level	MoM	YoY	MoM	YoY	MoM	YoY	MoM	YoY
2007: Sep	208.490	0.28	2.8	0.37	2.8	0.24	2.1	0.22	2.1
2007: Oct	208.936	0.21	3.5	0.26	3.5	0.33	2.2	0.18	2.2
2007: Nov	210.177	0.59	4.3	0.90	4.4	0.06	2.3	0.24	2.4
2007: Dec	210.036	-0.07	4.1	0.36	4.1	-0.04	2.4	0.22	2.4
2008: Jan	211.080	0.50	4.3	0.39	4.4	0.37	2.5	0.31	2.5
2008: Feb	211.693	0.29	4.0	0.03	4.1	0.34	2.3	0.04	2.3
2008: Mar	213.528	0.87	4.0	0.34	4.0	0.47	2.4	0.15	2.4
2008: Apr	214.630	0.52	3.8	0.17	3.8	0.14	2.3	0.15	2.3
2008: May	215.648	0.47	3.7	0.32	3.7	0.00	2.3	0.15	2.3
2008: Jun	216.185	0.25	3.8	0.32	3.8	0.02	2.2	0.16	2.2
2008: Jul	216.270	0.04	3.8	0.29	3.8	0.06	2.2	0.15	2.2
2008: Aug	216.227	-0.02	4.0	0.18	4.0	0.16	2.2	0.15	2.2
2008: Sep	216.353	0.06	3.8	0.15	3.8	0.16	2.1	0.14	2.1
2008: Oct	216.580	0.10	3.7	0.15	3.7	0.29	2.0	0.14	2.0
2008: Nov	216.245	-0.15	2.9	0.15	2.9	-0.05	1.9	0.14	1.9
2008: Dec	215.656	-0.27	2.7	0.15	2.7	-0.12	1.8	0.14	1.8

nsa: not seasonally adjusted, sa: seasonally adjusted
Source: Merrill Lynch

FX rate forecast summary

(end of period)		Spot	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Euroland Euro	US\$/Euro	1.55	1.55	1.51	1.48	1.40	1.33	1.30	1.28
Japanese Yen	¥/US\$	103	102	102	102	100	98	98	98
	¥/Euro	159	158	154	151	140	130	127	125
British Pound	US\$/£	1.95	1.99	1.91	1.87	1.79	1.73	1.71	1.68
	£/Euro	0.79	0.78	0.79	0.79	0.78	0.77	0.76	0.76
Swiss Franc	SF/US\$	1.04	1.03	1.05	1.07	1.11	1.16	1.18	1.20
	SF/Euro	1.61	1.59	1.58	1.58	1.55	1.54	1.54	1.54
Canadian \$	C\$/US\$	1.01	1.02	1.04	1.06	1.08	1.11	1.12	1.12
Australian \$	US\$/A\$	0.94	0.94	0.91	0.84	0.80	0.74	0.72	0.70
Chinese Renminbi	RMB/US\$	6.99	6.85	6.70	6.60	6.55	6.60	6.50	6.50
Hong Kong \$	HK\$/US\$	7.80	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Korean Won	KRW/US\$	1045	955	945	930	925	920	920	915
Singapore \$	SGD/US\$	1.37	1.33	1.32	1.33	1.33	1.34	1.35	1.36
Taiwan \$	TWD/US\$	30.76	31.00	32.25	32.50	32.50	32.75	33.00	33.50
Brazilian Real	BRL/US\$	1.69	1.70	1.80	1.80	1.85	1.85	1.90	1.90
Mexican Peso	MXN/US\$	10.56	10.90	11.20	11.00	11.15	11.20	11.40	11.20

Spot prices are as of Friday morning
Source: Merrill Lynch FX Strategy Team., Bloomberg

Rolling Calendar of Business Indicators

Monday	Tuesday	Wednesday	Thursday	Friday
12 May 2:00 pm: Budget Statement Apr 2007 \$177.7bn Apr 2008 \$160.0bn*	13 May ABC/Washington Post Consumer Comfort Survey —(week ending 5/11/08) LJR Redbook —(week ending 5/10/08) 8:30 am: Import Prices Feb 0.2% Mar 2.8% Apr 0.0%* 8:30 am: Retail Sales Feb -0.4% Mar 0.2% Apr -0.6%* 8:30 am: Retail Sales ex Autos Feb -0.1% Mar 0.1% Apr -0.2%* 10:00 am: Business Inventories Jan 0.9% Feb 0.6% Mar 0.1%*	14 May MBA Mortgage Applications —(week ending 5/09/08) 8:30 am: CPI Feb 0.0% Mar 0.3% Apr 0.2%* 8:30 am: Core CPI Feb 0.0% Mar 0.2% Apr 0.1%*	15 May 8:30 am: Initial Jobless Claims —(week ending 5/10/08) – 367k* 8:30 am: Empire Manufacturing Mar -22.2 Apr 0.6 May 2.0* 9:00 am: TIC Data Jan \$57.1bn Feb \$72.5bn Mar \$90.0bn* 9:15 am: Industrial Production Feb -0.7% Mar 0.3% Apr -0.1%* 9:15 am: Capacity Utilization Feb 80.3% Mar 80.5% Apr 80.4%* 10:00 am: Philly Fed Mar -17.4 Apr -24.9 May -22.0* 1:00 pm: NAHB Housing Market Index Mar 20 Apr 20 May 20*	16 May 8:30 am: Housing Starts Feb 1075k Mar 947k Apr 942k* 8:30 am: Building Permits Feb 984k Mar 928k Apr 910k* 10:00 am: University of Michigan Consumer Sentiment Mar 69.5 Apr 62.6 May (P) 60.0*
19 May 10:00 am: Leading Indicators Feb -0.3% Mar 0.1% Apr 0.0%*	20 May ABC/Washington Post Consumer Comfort Survey —(week ending 5/18/08) LJR Redbook —(week ending 5/17/08) 8:30 am: PPI Feb 0.3% Mar 1.1% Apr 0.2%* 8:30 am: Core PPI Feb 0.5% Mar 0.2% Apr 0.3%*	21 May MBA Mortgage Applications —(week ending 5/16/08) 2:00 pm: <i>Minutes of the April 29-30 FOMC meeting released</i>	22 May 8:30 am: Initial Jobless Claims —(week ending 5/17/08) 10:00 am: OFHEO House Price Index QoQ – 1Q 3Q -0.2% 4Q 0.1%	23 May 10:00 am: Existing Home Sales Feb 5.03mn Mar 4.93mn Apr 4.82mn*
26 May <i>Memorial Day (holiday observed)</i>	27 May ABC/Washington Post Consumer Comfort Survey —(week ending 5/25/08) LJR Redbook —(week ending 5/24/08) 9:00 am: Case-Shiller Home Price Index (Composite 20) – Mar Jan -2.3% Feb -2.7% 10:00 am: Consumer Confidence – May Mar 65.9 Apr 62.3 10:00 am: New Home Sales – Apr Feb 575k Mar 526k	28 May MBA Mortgage Applications —(week ending 5/23/08) 8:30 am: Durable Goods Orders – Apr Feb -0.6% Mar 0.1% 8:30 am: Durable Goods Orders ex Transportation – Apr Feb -2.1% Mar 1.6%	29 May 8:30 am: Initial Jobless Claims —(week ending 5/24/08) 8:30 am: Real GDP – 1Q (P) 4Q 0.6% 1Q (A) 0.6% 8:30 am: GDP Price Index – 1Q (P) 4Q 2.4% 1Q (A) 2.6% 10:00 am: Help Wanted Index – Apr Feb 21 Mar 19	30 May 8:30 am: Personal Income – Apr Feb 0.5% Mar 0.3% 8:30 am: Personal Spending – Apr Feb 0.1% Mar 0.4% 8:30 am: Core PCE (YoY) – Apr Feb 2.0% Mar 2.1% 9:45 am: Chicago PMI – May Mar 48.2 Apr 48.3 10:00 am: University of Michigan Consumer Sentiment – May (F) Apr 62.6 May (P) 60.0*
*Projections—subject to revision as additional data become available during the month. (R) denotes reopening.				

Important Disclosures

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited; Moscow: Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2008 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.