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Fixed Income Commentary Autos Take One Step Forward, One Step Back

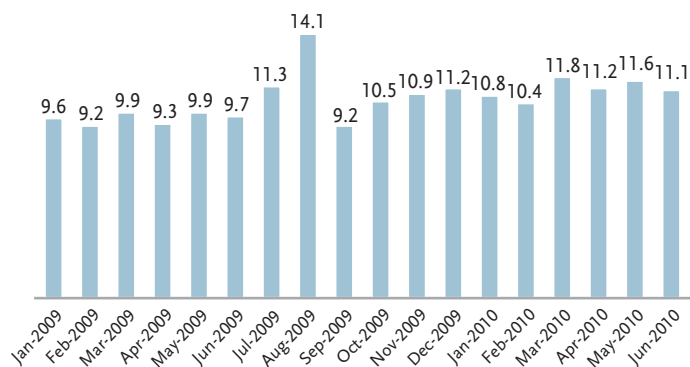
The auto industry modestly underperformed in June, missing expectations by a bit and falling off from the sales performance of May. The official June seasonally adjusted and annualized rate (SAAR) comes in at 11.08 million vehicles, missing the consensus for 11.2 million. Macroeconomic issues such as elevated unemployment and soft consumer confidence are weighing on the sector and slowing the industry's recovery. This was the lowest SAAR since February.

On a year-over-year (YOY) basis, sales increased 14% from 9.7 million in June '09. On a sequential basis, sales declined 5% from 11.6 million in May.

With half of this calendar year in the books, the YTD SAAR now stands at 11.1 million. Expectations for the full year still stand at 11.5 to 12.0 million according to most industry participants, but the pace will clearly need to start picking up on a more consistent basis for us to meet those targets. Thus far in 2010, industry performance can be characterized as follows: one step forward, one step back.

Monthly Auto SAAR

January 2009 – June 2010



Source: Bloomberg

GM Sales

- Reported 195,000 light vehicle sales, up 10.7% YoY. This represents a slight underperformance versus expectations of +14-18%.
- More importantly, 'core' GM sales of its surviving brands (Chevrolet, Cadillac, GMC, Buick) were 194,000, up 36% YoY. June represents the sixth straight month that the core brands saw sales rise more than 20% YoY. This is another solid performance as GM's core brand sales growth rate considerably outpaced the industry's sales rate. Discontinued brands sold only 552 total units, down 98% YoY.
- Retail sales have shown double-digit gains for four consecutive months.
- Pick-up truck sales show continued strengthening. Silverado, Sierra and Avalanche sales increased 27% and are up 12% YTD, as demand is returning for trucks. The question in my mind is if weakening in new home starts will drag pick-up sales lower in coming months.
- Inventory ended the month at 438,000 units, an approximate 60-day supply. Inventory rose by 30,000 units in the month, versus May.

Ford Sales

- Reported vehicle sales of 176,000 in June, up 13.3% YoY. Similar to GM, this is slightly below expectations for +14-18%.

Fixed Income Commentary

Autos Take One Step Forward, One Step Back (cont'd)

- Mix was even in the month—retail sales were up 15% and fleet sales were up 15%. Fleet sales were driven by sales to commercial customers, as sales to daily rental customers declined 19%. Ford's retail sales increased for the 20th time in 21 months, and was further helped by recent JD Power rankings that placed Ford first in initial quality among non-luxury brands.
- Car sales were up 16%, pick-up trucks were 25% higher (similar to GM), while SUVs lagged at +3%. The F-Series lineup saw sales increase 29% YoY, boosted by the all-new Super Duty, and are higher YTD by 34%, continuing its pickup truck market share increase.
- Inventory ended the month at 406,000 (136,000 cars/270,000 trucks).

Chrysler Sales

- Reported unit sales of 92,000, up 35% YoY. Chrysler was one of the few OEM's to surpass expectations (up 30-34%) for the month. The primary reason for the large increase is a very weak YoY benchmark for the company, as its 2009 sales plummeted after filing bankruptcy.
- Inventory ended at 195,000 units, a 60-day supply.
- The new 2011 Grand Cherokee starting shipping to dealers in June and should provide some sales momentum for the company in the near-term.

Other OEMs

- Toyota sales were up 7% YoY, similar to May results, but not stellar. Ford overtook Toyota for #2 market share through the first half of 2010, as the Japanese OEM stumbled through a series of safety recalls and negative headlines.
- Honda posted an increase of only 6%, which represents its lowest gain in five months.
- Hyundai posted a sales gain of 28%, second only to Chrysler amongst the big OEMs. On a YTD basis, Hyundai sales are up 21%.

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