

STATE OF THE AUTO INDUSTRY

Quantifying 2011 Risks; Detailed 2011-2012 SAAR/Inventory/Production Outlook (NA and Europe); Estimate / Rating changes.

Conference Call Details

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Agenda

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Summary Comments

Next 6 months...

- **See more upside than downside risk to 2011 volume expectations,** driven by a) flatter SAAR outlook but also 2) market under-estimation of impact on 2011 production of non-repeat of 2010's sizable inventory rebuild.

- **Risks Feel Misbalanced:** Q3 likely to be strong, but even with potentially stronger 2010 base, ***2011 #s feel like they will stay unchanged at best, and more likely start moving down.***

- **Pivotal Sentiment Shaping Events in Next 4 months (all likely to tilt negative):**
 - Sept 28-29, 2010– Paris Auto Show
 - Oct 12, 2010 – first disclosure by a company (JCI) of FY2011 guidance.
 - Mid-Jan, 2011 – NA (Detroit) Auto Show
 - Late-Jan/Early-Feb – FY2011 Guidance revealed by most other companies.

Summary Comments

➤ **Bottom line Sector View:**

- This is not a structural short call on the sector (i.e., **still a very invest-able sector**).
- This is **UNLIKELY** to be start of a multiple compressing period as we see no major covenant, refinancing, liquidity concerns emerging.
- **This is a straightforward call on 2011 expectations that need to be reined in.**
- **After 2011 bars are lowered, we could once again become more broadly constructive on the group.**
- Our favorite long-term stocks are unchanged: BWA, TEN, HAR, ALV, TRW and generally still find value in tires (GT/CTB).

Macro Update

US and Western Europe Light Vehicle Sales

US Lt. Vehicle SAAR

(MM units)

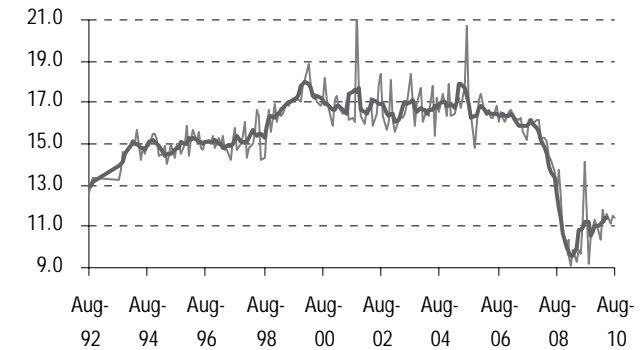
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005	16.3	16.5	16.9	17.2	16.8	17.8	20.7	16.8	16.5	14.8	16.0	17.1	16.9
2006	17.4	16.5	16.5	16.7	16.2	16.2	16.9	16.1	16.5	16.3	16.1	16.6	16.5
2007	16.6	16.5	16.2	16.2	16.3	15.6	15.2	16.2	16.2	16.0	16.1	16.2	16.1
2008	15.3	15.3	15.1	14.4	14.3	13.6	12.5	13.7	12.5	10.6	10.2	10.3	13.1
2009	9.6	9.1	9.9	9.3	9.9	9.7	11.2	14.1	9.2	10.5	10.9	11.3	10.4
2010	10.8	10.3	11.8	11.2	11.6	11.1	11.5	11.4					11.5
YOY	12.4%	13.6%	19.3%	20.1%	17.3%	14.1%	2.5%	-18.8%					10.8%

Source: U.S. Department of Commerce and J.P. Morgan estimates.

Note: Italicized numbers are J.P. Morgan Estimates; Adjusted for revised seasonal adjustment factors.

US Lt. Vehicle SAAR

(MM units)



Source: U.S. Department of Commerce and J.P. Morgan estimates.

Note: January 2004 SAAR adjustment factors are J.P. Morgan estimates based on prior U.S. Dept. of Commerce figures.

Western Europe Lt. Vehicle SAAR

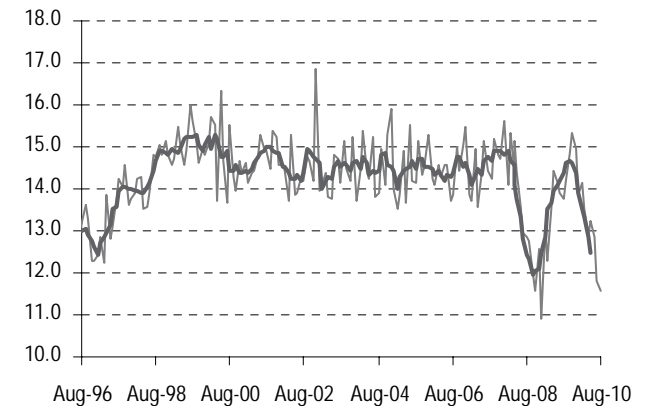
(MM units)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005	13.9	13.8	13.9	14.9	13.7	15.5	14.2	14.1	15.1	14.4	14.5	15.3	14.5
2006	14.2	14.1	14.5	14.3	14.6	14.6	13.7	13.8	15.0	14.4	15.1	15.5	14.6
2007	13.8	13.7	14.9	13.6	14.4	15.2	14.4	14.2	15.2	14.8	14.7	15.6	14.7
2008	14.1	15.3	14.4	15.1	14.4	13.6	12.9	12.9	12.8	12.0	11.6	12.6	13.5
2009	10.9	13.1	12.3	13.5	14.5	14.2	13.9	13.7	14.2	14.8	15.3	15.0	13.8
2010	13.9	14.1	13.5	12.9	13.2	12.9	<i>11.8</i>	<i>11.6</i>					
YOY	27.4%	7.8%	10.2%	-4.9%	-8.4%	-9.1%	-15.2%	-15.8%					

Source: ACEA data

Western Europe Lt. Vehicle SAAR

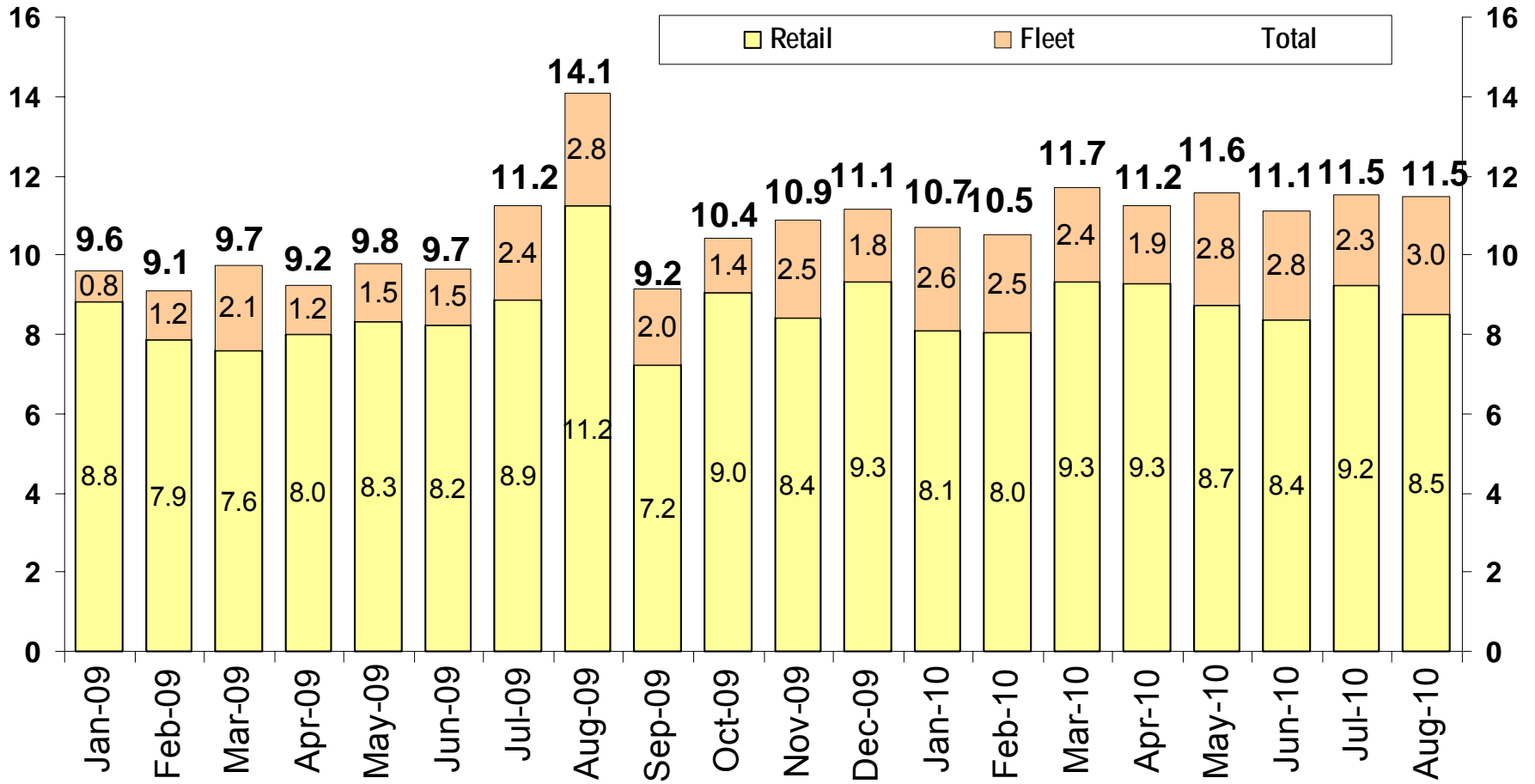
(MM units)



Source: ACEA data

US Auto Sales: Retail vs. Fleet SAAR

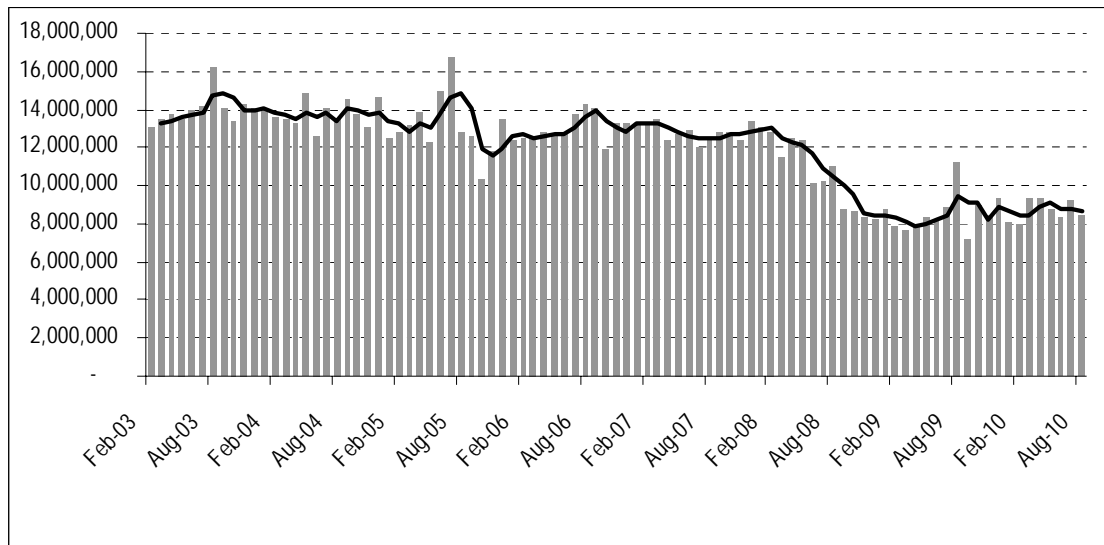
In millions of units



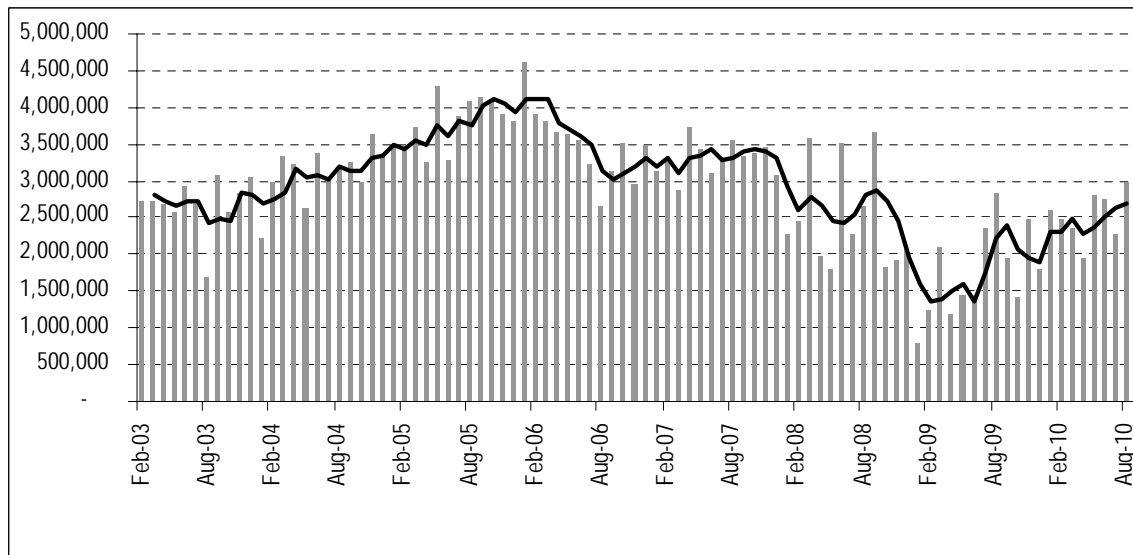
Source: J.D.Power , J.P. Morgan Estimates, Adjusted for revised seasonal adjustment factors.

US Auto Sales: Retail vs. Fleet SAAR

Retail SAAR



Fleet SAAR

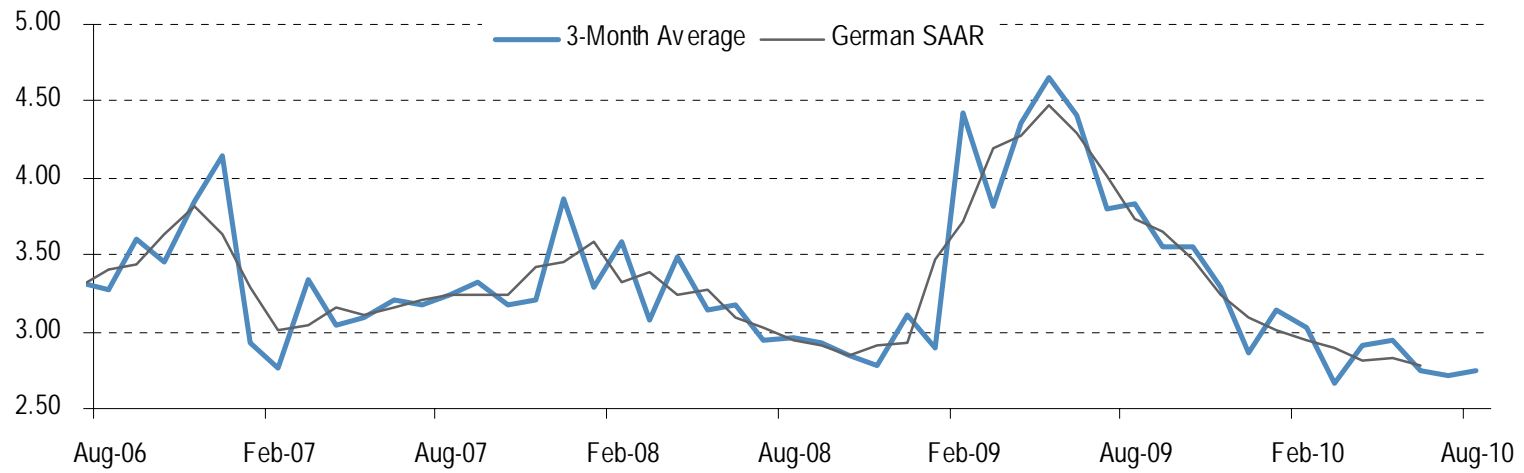


Western Europe SAAR by Region

	Western Europe Total	Germany	France	UK	Italy	Spain	Other Western Europe
Jan '09	10.90	2.89	1.86	1.57	1.64	0.84	2.10
Feb '09	13.13	4.42	2.01	1.80	1.88	0.77	2.25
Mar '09	12.32	3.82	2.08	1.58	1.99	0.70	2.15
Apr '09	13.54	4.36	2.07	1.82	2.18	0.81	2.31
May '09	14.47	4.66	2.67	1.90	2.17	0.79	2.28
Jun '09	14.16	4.41	2.27	1.81	2.33	0.90	2.44
Jul '09	13.88	3.80	2.22	2.02	2.15	0.95	2.75
Aug '09	13.77	3.83	2.14	2.12	2.14	1.01	2.53
Sep '09	14.15	3.55	2.35	2.13	2.30	1.21	2.62
Oct '09	14.81	3.56	2.36	2.54	2.34	1.34	2.67
Nov '09	15.36	3.28	2.90	2.66	2.47	1.21	2.84
Dec '09	14.96	2.87	2.74	2.60	2.61	1.15	2.99
Jan '10	13.88	3.14	2.35	2.32	2.46	1.08	2.53
Feb '10	14.12	3.03	2.48	2.41	2.41	1.21	2.57
Mar '10	13.57	2.67	2.39	2.02	2.34	1.17	2.99
Apr '10	12.89	2.92	2.16	2.09	1.86	1.13	2.73
May '10	13.23	2.94	2.45	2.25	1.81	1.16	2.63
Jun '10	12.88	2.74	2.14	2.04	1.85	1.15	2.95
Jul '10	11.80	2.72	2.01	1.79	1.64	0.74	2.91
Aug '10	11.58	2.75	1.88	1.82	1.66	0.73	2.75
FY 2009 Average	13.79	3.79	2.31	2.04	2.18	0.97	2.49
Normalized SAAR ('06 - '08 avg)	14.30	3.25	2.05	2.25	2.30	1.45	3.00
% Change-- August 2010 vs July 2010	-1.9%	1.2%	-6.5%	1.4%	1.6%	-1.8%	-5.6%
% Change -- August 2010 vs FY2009	-16.0%	-27.4%	-18.6%	-11.2%	-23.8%	-25.3%	10.1%
% Change -- August 2010 vs Normalized ('06 - '08 avg)	-19.0%	-15.4%	-8.4%	-19.3%	-27.7%	-49.9%	-8.5%

Source: ACEA, J.P. Morgan

German SAAR



Source: ACEA

Brazil, Argentina and China Light Vehicle Sales

Brazil & Argentina Lt. Vehicle sales

('000 units)

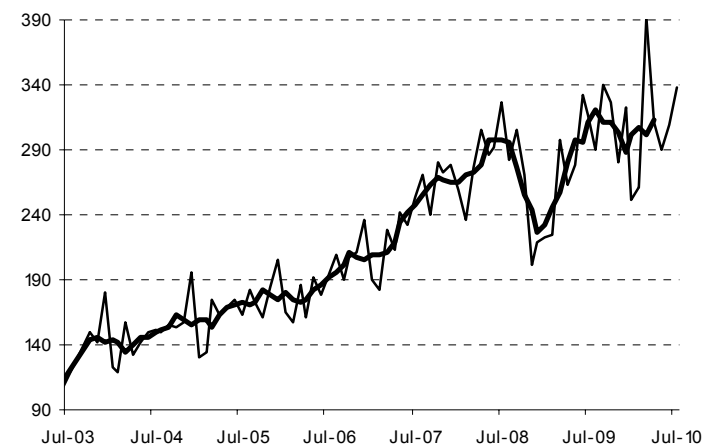
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2005	131	135	175	163	168	174	163	183	172	162	185	206	2017
2006	165	157	185	161	192	178	194	209	190	207	212	236	2286
2007	191	182	229	214	243	234	256	272	241	282	273	280	2898
2008	259	236	276	305	287	293	326	283	305	271	201	218	3258
2009	223	224	298	264	278	333	317	290	339	326	280	323	3496
2010	252	261	392	312	289	308	339						
YOY	12.7%	16.2%	31.5%	18.1%	4.0%	-7.3%	6.9%						

Source: Brazil sales data from Anfavea & Argentina Sales data from Adefa

- Brazil sales in July increased 7% y/y.
- China's auto sales in July were up 9% Y/Y and -7% M/M.

Brazil & Argentina Lt. Vehicle sales

('000 units)



Source: Brazil sales data from Anfavea & Argentina Sales data from Adefa

China Sedan Sales('000 units)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005	152	134	227	236	221	259	236	215	255	237	286	331	2,788
2006	296	235	325	351	297	301	264	297	346	304	374	423	3,812
2007	414	298	409	412	368	368	355	372	426	365	437	486	4,711
2008	501	357	516	445	415	434	361	345	416	410	390	452	5,040
2009	439	427	546	592	591	641	602	629	735	682	754	824	7,461
2010	930	623	850	760	720	705	655						
YOY	111.8%	45.9%	55.6%	28.5%	21.8%	10.0%	8.9%						

Source: Auto Consultancy affiliated with the state information center.

Note: Data include only sedans.

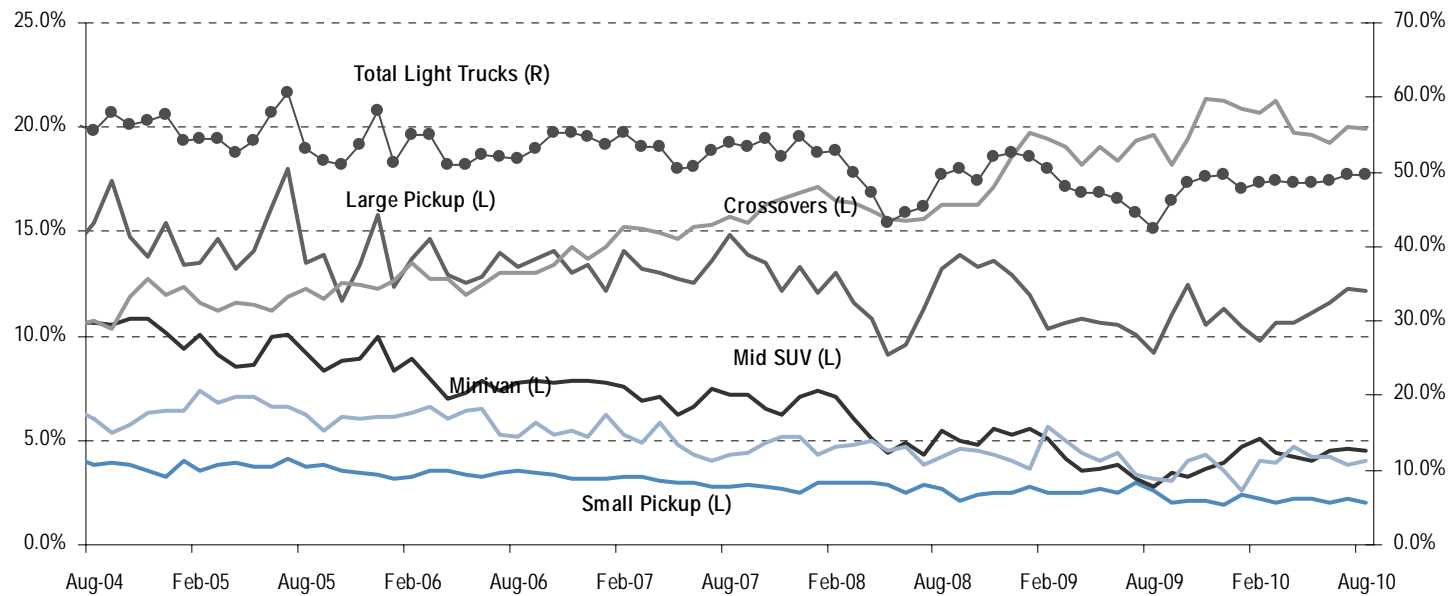
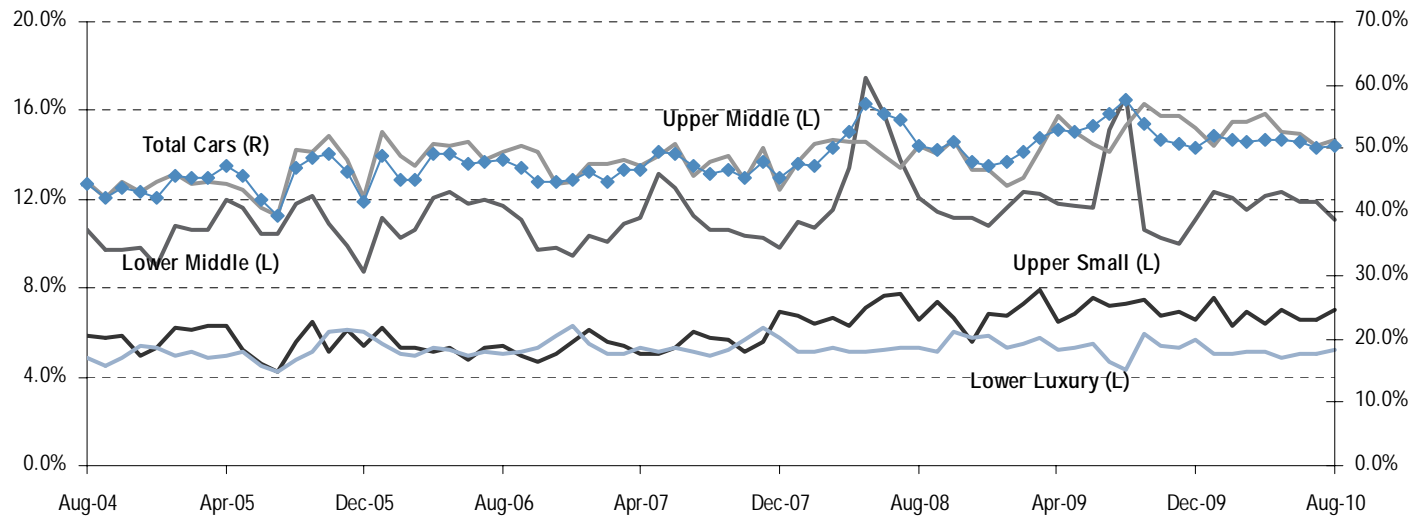
China Sedan Sales('000 units)



Source: Auto Consultancy affiliated with the state information center.

Note: Data include only sedans.

Sales by Segment – Passenger Cars and Light Trucks



Production Forecasts of CSM / JDPowers (MM units and % Change)

GLOBAL AUTO PRODUCTION

Units (MM)

	2007	2008	2009				2010				2009	2010E	2011E	2012E
	FY	FY	Q1	Q2	Q3	Q4	Q1	Q2E	Q3E	Q4E	FY	FY	FY	FY
NAFTA	15,167	12,641	1,699	1,777	2,355	2,752	2,903	3,093	2,935	2,825	8,582	11,756	12,468	13,470
Europe	21,713	20,490	3,430	4,241	4,078	4,512	4,710	4,973	3,851	4,258	16,261	17,792	18,221	19,130
Western World	36,880	33,131	5,128	6,017	6,433	7,263	7,613	8,066	6,786	7,084	24,842	29,549	30,689	32,600
China	8,054	8,483	2,385	3,163	3,330	3,880	4,167	3,963	3,561	3,791	12,758	15,482	16,680	19,527
Latin America	3,582	3,760	748	927	984	1,015	916	1,042	1,075	1,100	3,674	4,133	4,515	4,755
Emerging World	11,636	12,243	3,134	4,090	4,314	4,895	5,084	5,005	4,636	4,891	16,432	19,615	21,195	24,282
Japan	11,097	10,993	1,556	1,656	2,053	2,367	2,453	2,209	2,364	2,176	7,631	9,203	9,838	10,144
Other	9,007	9,098	1,858	1,904	2,196	2,597	2,483	1,583	1,893	2,566	8,554	8,525	8,842	8,833
Global	68,619	65,464	11,676	13,667	14,996	17,121	17,632	16,864	15,679	16,717	57,460	66,891	70,563	75,859

Q/Q change

	2007	2008	2009				2010				2009	2010E	2011E	2012E
	FY	FY	Q1	Q2	Q3	Q4	Q1	Q2E	Q3E	Q4E	FY	FY	FY	FY
NAFTA		-16.7	-37.1	4.6	32.5	16.9	5.5	6.6	-5.1	-3.8	-32.1	37.0	6.1	8.0
Europe		-5.6	-14.2	23.6	-3.8	10.6	4.4	5.6	-22.6	10.6	-20.6	9.4	2.4	5.0
Western World		-10.2	-23.4	17.3	6.9	12.9	4.8	6.0	-15.9	4.4	-25.0	18.9	3.9	6.2
China		5.3	25.0	32.6	5.3	16.5	7.4	-4.9	-10.1	6.5	50.4	21.3	7.7	17.1
Latin America		5.0	4.5	23.9	6.1	3.1	-9.7	13.7	3.1	2.3	-2.3	12.5	9.2	5.3
Emerging World		5.2	19.4	30.5	5.5	13.5	3.9	-1.6	-7.4	5.5	34.2	19.4	8.1	14.6
Japan		-0.9	-37.2	6.4	24.0	15.3	3.6	-9.9	7.0	-7.9	-30.6	20.6	6.9	3.1
Other		1.0	-16.9	2.5	15.3	18.3	-4.4	-36.2	19.6	35.6	-6.0	-0.3	3.7	-0.1
Global		-4.6	-16.8	17.1	9.7	14.2	3.0	-4.4	-7.0	6.6	-12.2	16.4	5.5	7.5

Y/Y change

	2007	2008	2009				2010				2009	2010E	2011E	2012E
	FY	FY	Q1	Q2	Q3	Q4	Q1	Q2E	Q3E	Q4E	FY	FY	FY	FY
NAFTA		-16.7	-51.3	-48.9	-20.8	2.0	70.9	74.1	24.7	2.7	-32.1	37.0	6.1	8.0
Europe		-5.6	-40.6	-28.6	-14.6	12.9	37.3	17.3	-5.6	-5.6	-20.6	9.4	2.4	5.0
Western World		-10.2	-44.7	-36.1	-17.0	8.5	48.4	34.1	5.5	-2.5	-25.0	18.9	3.9	6.2
China		5.3	6.1	32.9	70.9	103.4	74.7	25.3	6.9	-2.3	50.4	21.3	7.7	17.1
Latin America		5.0	-17.6	-11.5	-9.5	41.7	22.5	12.4	9.2	8.4	-2.3	12.5	9.2	5.3
Emerging World		5.2	-0.7	19.3	42.1	86.5	62.2	22.4	7.5	-0.1	34.2	19.4	8.1	14.6
Japan		-0.9	-48.7	-39.3	-25.5	-4.5	57.7	33.4	15.2	-8.1	-30.6	20.6	6.9	3.1
Other		1.0	-21.4	-18.6	1.7	16.2	33.6	-16.8	-13.8	-1.2	-6.0	-0.3	3.7	-0.1
Global		-4.6	-34.5	-23.7	-4.5	22.0	51.0	23.4	4.6	-2.4	-12.2	16.4	5.5	7.5

Source: CSM Autos, JDPowers.

NA / Europe Production Expectations – August vs. July

August CSM Forecast

	4Q	2009	1QE	2QE	3QE	4QE	2010E
UNITS							
NAFTA	2,752	8,582	2,903	3,093	2,935	2,825	11,756
Detroit 3 Carmakers	1,529	4,717	1,626	1,822	1,694	1,604	6,746
Imports/Other	1,223	3,864	1,276	1,271	1,241	1,222	5,010
EUROPE	4,512	16,261	4,710	4,973	3,851	4,258	17,792
US Carmakers	710	2,606	720	769	649	714	2,692
VW excl Audi	717	2,655	774	810	576	658	2,818
PSA	584	2,014	646	614	467	509	2,236
Fiat	482	1,891	488	515	378	412	1,794
Renault	413	1,475	457	449	305	328	1,538
Merc excl Smart	258	871	272	298	224	240	1,034
BMW excl Mini	233	831	214	262	199	235	910
Audi	222	780	232	229	208	235	904
Porsche	13	46	13	18	15	17	64
Non-German Lux.	44	134	54	51	53	56	214
Memo: Luxury	770	2,662	785	858	698	783	3,124
All Other	835	2,958	840	960	777	855	3,591
German Lux. -- NA and Europe	791	2,745	797	869	704	796	3,167
Q/Q % CHANGE							
NAFTA	16.9	(32.1)	5.5	6.6	(5.1)	(3.8)	37.0
Detroit 3 Carmakers	16.6	(37.2)	6.4	12.1	(7.0)	(5.3)	43.0
Imports/Other	17.1	(24.5)	4.4	(0.4)	(2.3)	(1.6)	29.6
EUROPE	10.6	(20.6)	4.4	5.6	(22.6)	10.6	9.4
US Carmakers	13.4	(28.5)	1.4	6.7	(15.5)	10.0	3.3
VW excl Audi	7.3	(13.7)	7.9	4.6	(28.8)	14.1	6.1
PSA	18.0	(17.8)	10.8	(5.0)	(23.9)	9.0	11.0
Fiat	6.3	2.1	1.2	5.6	(26.5)	8.9	(5.1)
Renault	10.5	(8.3)	10.5	(1.7)	(32.1)	7.6	4.3
Merc excl Smart	4.7	(24.2)	5.5	9.6	(24.9)	7.4	18.6
BMW excl Mini	7.0	(11.7)	(8.1)	22.2	(24.1)	18.6	9.5
Audi	21.4	(14.8)	4.3	(1.4)	(9.0)	12.6	15.9
Porsche	25.8	(4.2)	1.7	34.4	(15.2)	7.6	36.7
Non-German Lux.	13.6	(39.0)	22.0	(4.6)	2.7	6.5	59.7
Memo: Luxury	10.6	(18.7)	1.9	9.2	(18.6)	12.1	17.4
All Other	9.2	(35.5)	0.5	14.3	(19.1)	10.1	21.4
German Lux. -- NA and Europe	10.2	(18.7)	0.7	9.1	(19.0)	13.1	15.4

Source: CSM Autos

July CSM Forecast

	4Q	2009	1QE	2QE	3QE	4QE	2010E
UNITS							
NAFTA	2,752	8,582	2,903	3,068	2,884	2,776	11,632
Detroit 3 Carmakers	1,529	4,717	1,626	1,822	1,682	1,566	6,696
Imports/Other	1,223	3,864	1,276	1,246	1,202	1,211	4,935
EUROPE	4,512	16,261	4,692	4,810	3,805	4,220	17,527
US Carmakers	710	2,606	720	749	647	711	2,710
VW excl Audi	717	2,655	756	759	558	647	2,720
PSA	584	2,014	646	612	467	509	2,234
Fiat	482	1,891	488	512	378	413	1,791
Renault	413	1,475	457	447	308	328	1,539
Merc excl Smart	258	871	272	272	214	239	996
BMW excl Mini	233	831	214	257	199	235	905
Audi	222	780	232	223	205	230	890
Porsche	13	46	13	18	15	17	63
Non-German Lux.	44	134	54	50	53	56	213
Memo: Luxury	770	2,662	785	820	686	776	3,067
All Other	835	2,958	840	910	761	836	3,465
German Lux. -- NA and Europe	791	2,745	797	833	692	790	3,111
Q/Q % CHANGE							
NAFTA	16.9	(32.1)	5.5	5.7	(6.0)	(3.8)	35.5
Detroit 3 Carmakers	16.6	(37.2)	6.4	12.1	(7.7)	(6.9)	42.0
Imports/Other	17.1	(24.5)	4.4	(2.4)	(3.5)	0.7	27.7
EUROPE	10.6	(20.6)	4.0	2.5	(20.9)	10.9	7.8
US Carmakers	13.4	(28.5)	1.4	4.0	(13.6)	9.9	4.0
VW excl Audi	7.3	(13.7)	5.4	0.4	(26.5)	15.9	2.5
PSA	18.0	(17.8)	10.8	(5.3)	(23.7)	9.0	10.9
Fiat	6.3	2.1	1.2	5.0	(26.2)	9.0	(5.2)
Renault	10.5	(7.0)	10.5	(2.0)	(31.3)	6.6	4.4
Merc excl Smart	4.7	(24.2)	5.5	(0.1)	(21.2)	11.6	14.3
BMW excl Mini	7.0	(11.7)	(8.1)	20.2	(22.9)	18.4	9.0
Audi	21.4	(14.8)	4.3	(4.0)	(7.9)	12.0	14.2
Porsche	25.8	(4.2)	1.7	33.1	(14.0)	7.1	36.5
Non-German Lux.	13.6	(39.0)	22.0	(6.0)	4.2	6.5	59.0
Memo: Luxury	10.6	(18.7)	1.9	4.4	(16.4)	13.2	15.2
All Other	9.2	(35.8)	0.5	8.3	(16.3)	9.8	17.1
German Lux. -- NA and Europe	10.2	(18.7)	0.7	4.5	(17.0)	14.2	13.3

Asia / South America Production Expectations – August vs. July

JDPower Asia/South America Production Forecast -- August

	2008	4Q	2009	1QE	2QE	3QE	4QE	2010E
Units ('000s)								
Total Asia-Pacific	28,334	8,746	28,699	9,171	8,865	8,593	8,583	35,212
Toyota	6,412	1,586	5,004	1,630	1,420	1,495	1,432	5,977
Hyundai	3,605	1,228	4,084	1,106	1,206	1,098	1,067	4,477
Honda	2,109	516	1,740	512	480	533	501	2,025
Suzuki	2,125	562	2,028	632	603	567	541	2,342
Renault-Nissan	2,218	628	1,958	622	631	727	714	2,694
Volkswagen	996	417	1,401	402	464	423	409	1,697
Peugeot	202	86	267	95	90	78	84	348
US Carmakers	2,586	934	3,086	966	1,038	943	951	3,696
Memo: China	8,483	3,880	12,758	4,167	3,963	3,561	3,791	15,482
Total South-America	3,760	1,015	3,674	916	1,042	1,075	1,100	4,133
VW	780	212	822	206	226	240	232	905
Fiat	759	212	821	193	216	228	235	873
Renault-Nissan	234	75	231	62	76	81	75	294
PSA	279	65	203	50	74	80	81	285
Toyota	159	40	141	34	39	37	39	148
Honda	131	31	132	36	29	34	37	136
US Carmakers	1,252	345	1,213	304	346	333	357	1,368
Q/Q % CHANGE								
Total Asia-Pacific	1.6	15.9	1.3	4.9	(3.3)	(3.1)	(0.1)	22.7
Toyota	(0.8)	17.2	(22.0)	2.8	(12.9)	5.3	(4.2)	19.4
Hyundai	3.9	16.2	13.3	(9.9)	9.1	(9.0)	(2.8)	9.6
Honda	0.7	12.8	(17.5)	(0.8)	(6.1)	11.0	(6.0)	16.4
Suzuki	2.1	15.4	(4.6)	12.5	(4.6)	(6.0)	(4.6)	15.5
Renault-Nissan	13.2	12.3	(11.7)	(0.9)	1.5	15.1	(1.7)	37.6
Volkswagen	3.2	8.2	40.6	(3.7)	15.5	(8.8)	(3.4)	21.2
Peugeot	(12.0)	26.0	31.7	10.6	(5.1)	(13.2)	7.8	30.4
US Carmakers	(3.8)	16.1	19.3	3.4	7.5	(9.1)	0.8	19.8
Memo: China	5.3	16.5	50.4	7.4	(4.9)	(10.1)	6.5	21.3
Total South-America	5.0	3.2	(2.3)	(9.7)	13.7	3.1	2.3	12.5
VW	5.0	(0.1)	5.4	(2.9)	9.7	6.3	(3.4)	10.0
Fiat	5.2	(8.7)	8.1	(9.0)	12.0	5.4	3.1	6.3
Renault-Nissan	(2.5)	17.0	(1.6)	(17.6)	22.0	6.4	(6.5)	27.3
PSA	19.6	18.3	(27.1)	(22.7)	46.2	8.8	1.1	40.5
Toyota	(1.2)	10.7	(11.4)	(16.5)	16.1	(6.2)	6.2	5.4
Honda	23.7	(22.5)	0.7	16.0	(20.4)	16.8	9.1	3.1
US Carmakers	0.8	9.4	(3.1)	(11.8)	13.6	(3.7)	7.2	12.7

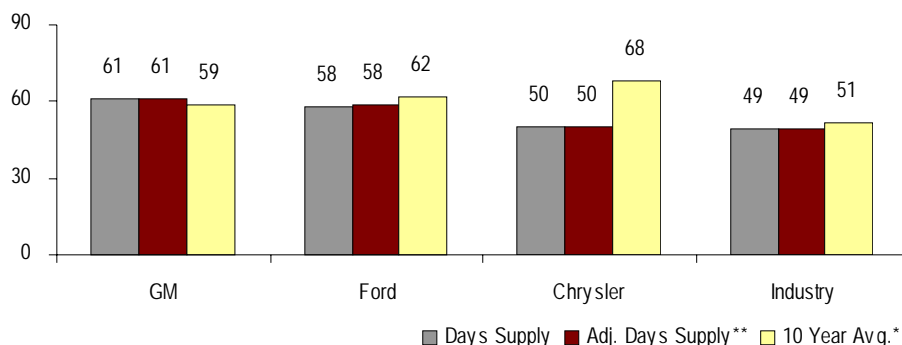
Source: J.D. Power

JDPower Asia/South America Production Forecast -- July

	2008	4Q	2009	1QE	2QE	3QE	4QE	2010E
Units ('000s)								
Total Asia-Pacific	28,334	8,775	28,833	9,177	8,547	7,891	8,120	33,735
Toyota	6,412	1,594	5,040	1,632	1,451	1,399	1,342	5,824
Hyundai	3,605	1,233	4,112	1,111	1,213	928	1,030	4,282
Honda	2,109	516	1,740	512	476	503	491	1,982
Suzuki	2,125	562	2,028	632	600	547	516	2,296
Renault-Nissan	2,218	628	1,955	622	637	679	671	2,608
Volkswagen	996	417	1,401	402	464	369	407	1,642
Peugeot	202	86	267	95	90	82	89	356
US Carmakers	2,616	949	3,156	966	1,038	879	952	3,835
Memo: China	8,483	3,880	12,758	4,167	3,793	3,302	3,608	14,871
Total South-America	3,760	1,015	3,674	915	1,046	1,092	1,076	4,129
VW	780	212	822	206	226	235	228	894
Fiat	759	212	821	193	217	236	230	876
Renault-Nissan	234	75	231	62	77	71	69	279
PSA	279	65	203	50	74	75	72	272
Toyota	159	40	141	34	39	39	39	151
Honda	131	31	132	36	29	39	39	144
US Carmakers	1,252	345	1,213	304	344	350	354	1,354
Q/Q % CHANGE								
Total Asia-Pacific	1.6	15.8	1.8	4.6	(6.9)	(7.7)	2.9	17.0
Toyota	(0.8)	17.1	(21.4)	2.3	(11.0)	(3.6)	(4.1)	15.6
Hyundai	3.9	15.8	14.1	(9.9)	9.2	(23.5)	11.0	4.1
Honda	0.7	12.8	(17.5)	(0.8)	(6.9)	5.6	(2.5)	13.9
Suzuki	2.1	15.4	(4.6)	12.5	(5.0)	(8.8)	(5.7)	13.2
Renault-Nissan	13.2	12.3	(11.9)	(0.9)	2.4	6.6	(1.1)	33.4
Volkswagen	3.2	8.2	40.6	(3.7)	15.5	(20.4)	10.2	17.2
Peugeot	(12.0)	26.0	31.7	10.6	(5.0)	(8.9)	8.2	33.7
US Carmakers	(2.7)	15.8	20.6	1.7	7.5	(15.3)	8.2	21.5
Memo: China	5.3	16.5	50.4	7.4	(9.0)	(13.0)	9.3	16.6
Total South-America	5.0	3.2	(2.3)	(9.9)	14.4	4.4	(1.5)	12.4
VW	5.0	(0.1)	5.4	(2.9)	9.7	3.8	(2.9)	8.8
Fiat	5.2	(8.7)	8.1	(9.0)	12.0	9.0	(2.3)	6.7
Renault-Nissan	(2.5)	17.0	(1.6)	(17.6)	23.7	(7.8)	(2.0)	20.8
PSA	19.6	18.3	(27.1)	(22.7)	46.2	2.1	(3.8)	33.8
Toyota	(1.2)	10.7	(11.4)	(16.5)	16.1	0.8	0.2	7.8
Honda	23.7	(22.5)	0.7	16.0	(20.4)	35.2	0.1	8.9
US Carmakers	0.8	9.4	(3.1)	(11.8)	13.2	1.7	1.2	11.6

Dealer Inventories

Big 3 and Industry August ending inventory (days supply)



➤ August-end industry inventory stood at 49 days, 2 days below historical average

+15

-25

-71

-79

Source: Ward's Automotive Reports, Autodata Corp. and company reports.

Big 3 and Industry Monthly Inventory (000 units)

	Aug-10	Jul-10	Aug-09
Industry	1,955	1948	1,349
GM	452	421	370
Ford	362	347	241
Chrysler	198	191	100

Source: Ward's Automotive Reports, Autodata Corp., and company reports.

• Industry average for 1993-2002.

**Adjusted days supply compares month end inventory to the seasonally adjusted average six-month daily sales rate.

Big 3 year end inventories

	2006	2007	2008	2009	09/08%
US Light Veh SAAR, MM	16.5	16.2	13.1	10.4	
GM					
US Inventory, 000	1031	885	785	381	-51%
Days Supply	84	88	159	51	-68%
Memo: US Market Share	24.7%	23.8%	21.3%	19.9%	
Ford					
US Inventory, 000	770	581	416	381	-9%
Days Supply	92	93	118	59	-50%
Memo: US Market Share	17.3%	15.6%	14.1%	15.9%	
Chrysler					
US Inventory, 000	551	414	360	179	-50%
Days Supply	85	76	152	58	-62%
Memo: US Market Share	13.0%	12.9%	10.4%	8.9%	

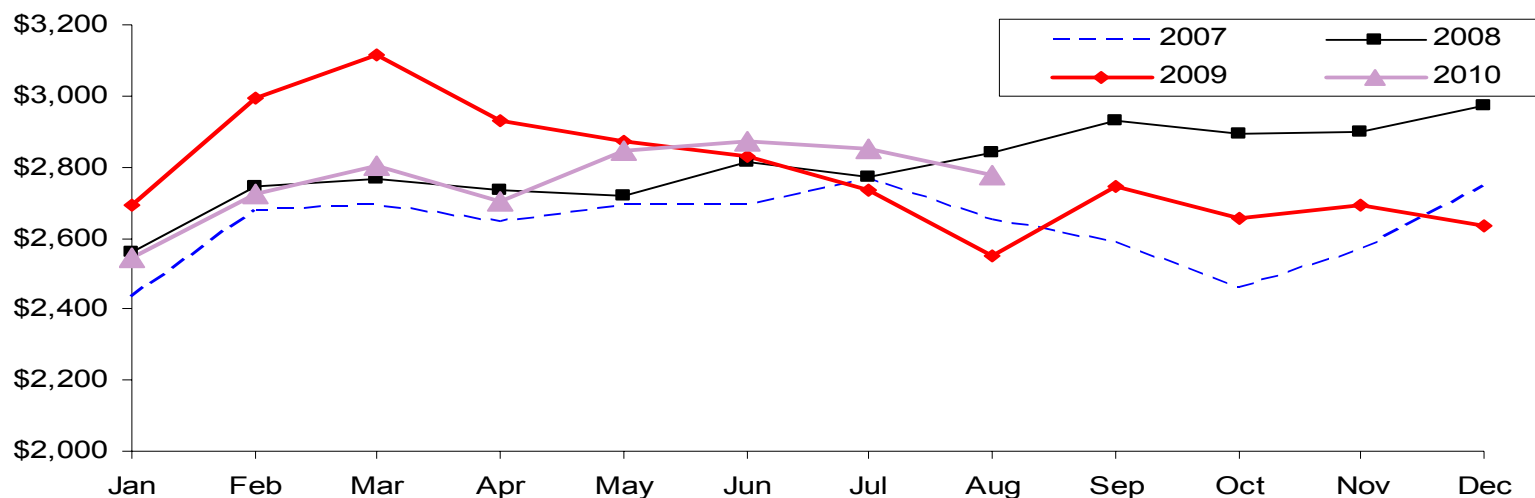
Note: days supply based on 12-mth sales

Source: CSM, Wards, and company reports.

Retail Incentives

Monthly Light Vehicle Retail Promotion Costs

\$ per vehicle



Source: Autodata Corp.

* Starting in August 2002, the methodology for tracking U.S. retail promotion costs was revised. 2002 and 2001 figures have been restated; however, data prior to 2001 have not been revised, and comparability is skewed.

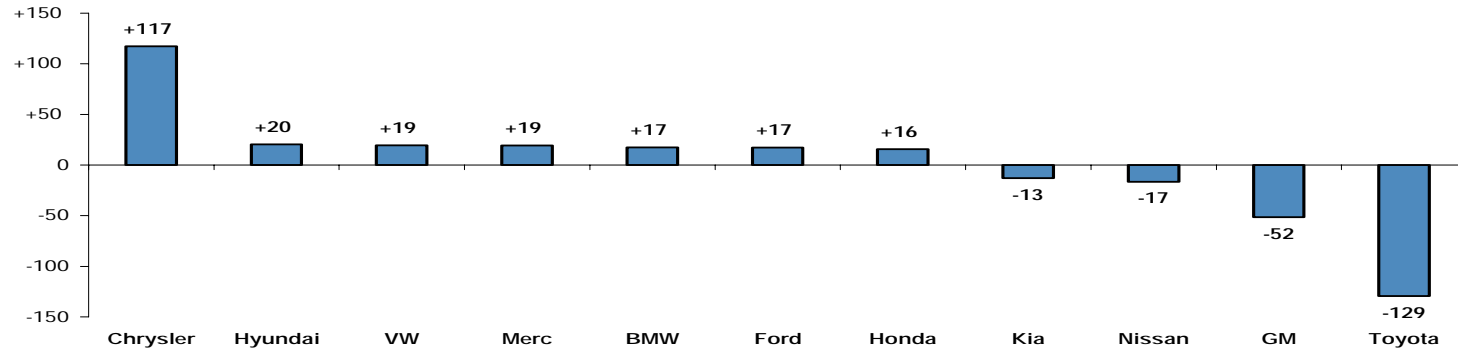
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg.
2004*	\$2,750	\$2,906	\$3,029	\$2,994	\$3,046	\$2,979	\$3,090	\$3,121	\$3,125	\$2,781	\$2,655	\$2,705	\$2,942
2005*	\$2,542	\$2,777	\$2,921	\$2,844	\$2,965	\$3,269	\$3,263	\$2,886	\$2,598	\$2,204	\$2,363	\$2,572	\$2,809
2006*	\$2,391	\$2,527	\$2,635	\$2,468	\$2,548	\$2,863	\$2,752	\$2,720	\$2,645	\$2,597	\$2,632	\$2,606	\$2,621
2007*	\$2,434	\$2,675	\$2,690	\$2,646	\$2,694	\$2,694	\$2,766	\$2,648	\$2,587	\$2,460	\$2,563	\$2,746	\$2,641
2008*	\$2,562	\$2,743	\$2,767	\$2,733	\$2,717	\$2,812	\$2,773	\$2,838	\$2,933	\$2,896	\$2,898	\$2,975	\$2,793
2009*	\$2,691	\$2,993	\$3,116	\$2,928	\$2,873	\$2,828	\$2,737	\$2,548	\$2,743	\$2,658	\$2,694	\$2,633	\$2,822
2010*	\$2,545	\$2,723	\$2,804	\$2,702	\$2,844	\$2,873	\$2,852	\$2,778					
YOY	-5.4%	-9.0%	-10.0%	-7.7%	-1.0%	1.6%	4.2%	9.0%					
MOM	-3.3%	7.0%	3.0%	-3.6%	5.3%	1.0%	-0.7%	-2.6%					

Source: Autodata Corp.

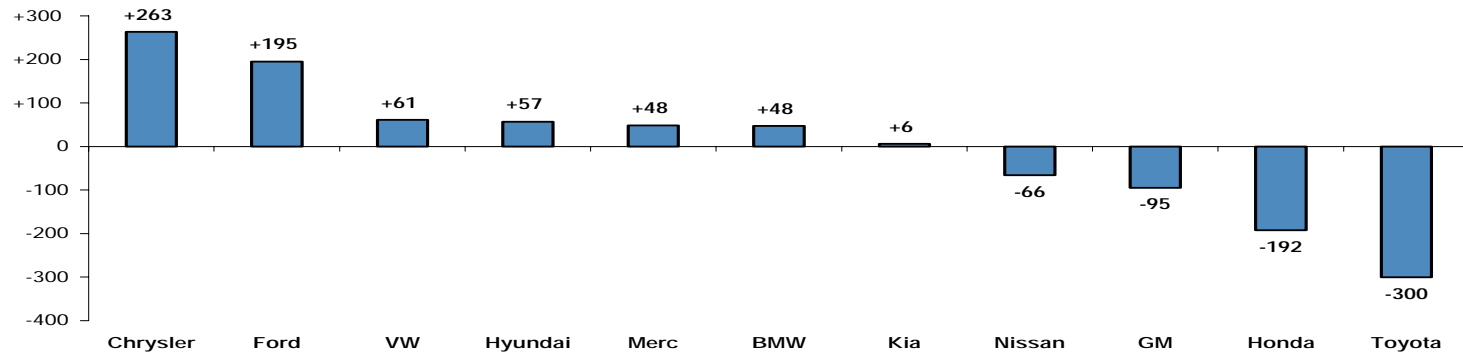
* Starting in August 2002, the methodology for tracking U.S. retail promotion costs was revised. 2002 and 2001 figures have been restated; however, data prior to 2001 have not been revised, and comparability is skewed.

Recent Market Share Changes – August

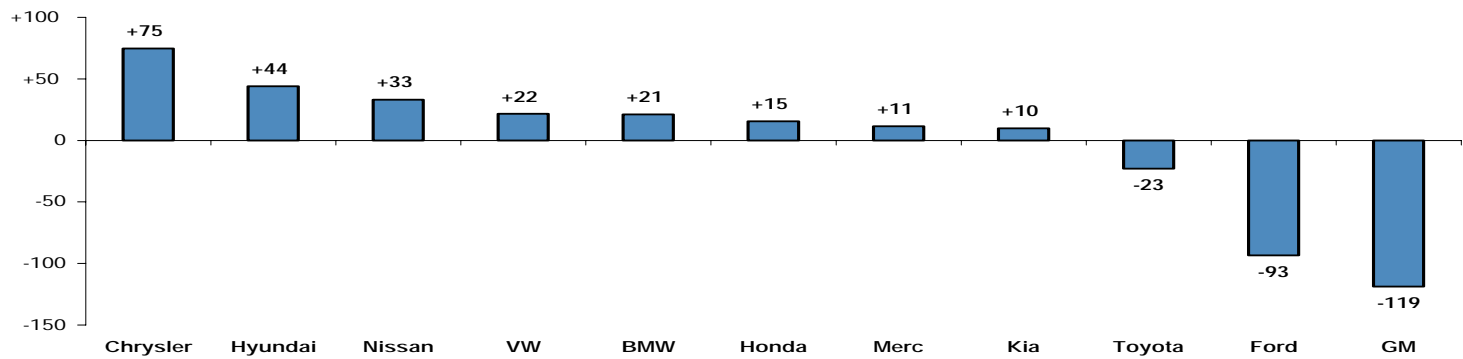
M/M Change (bps)



Y/Y Change (bps)



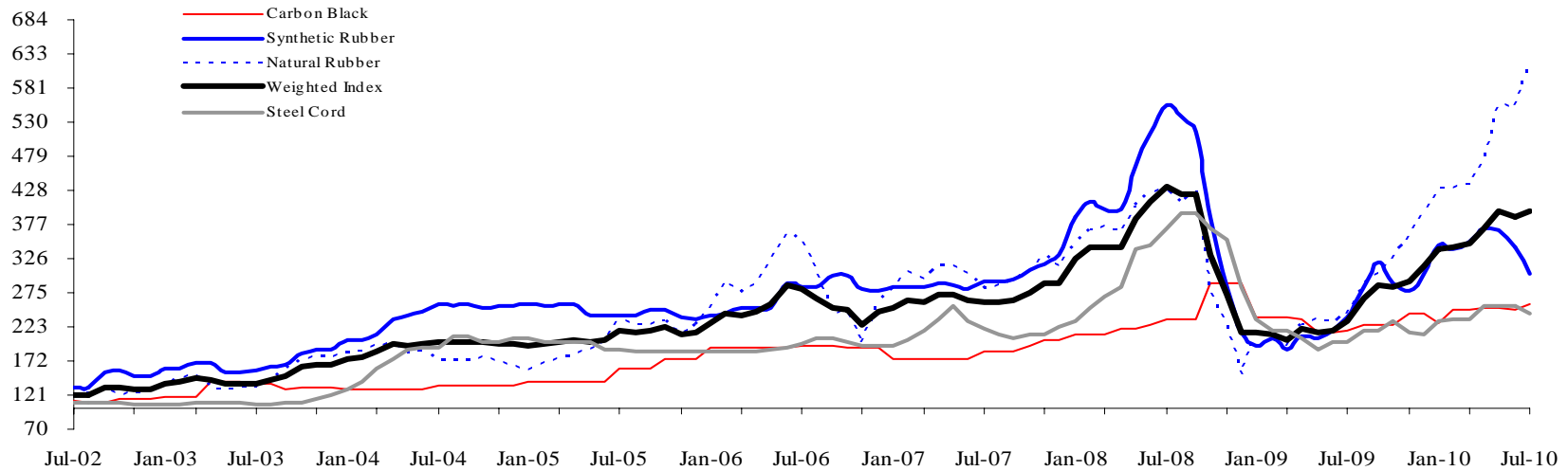
Change vs. Last 3 Month (bps)



Source: Wards Auto, AutoData and company reports

Key Commodities in a Vehicle

JPM Weighted Vehicle Raw Material Index

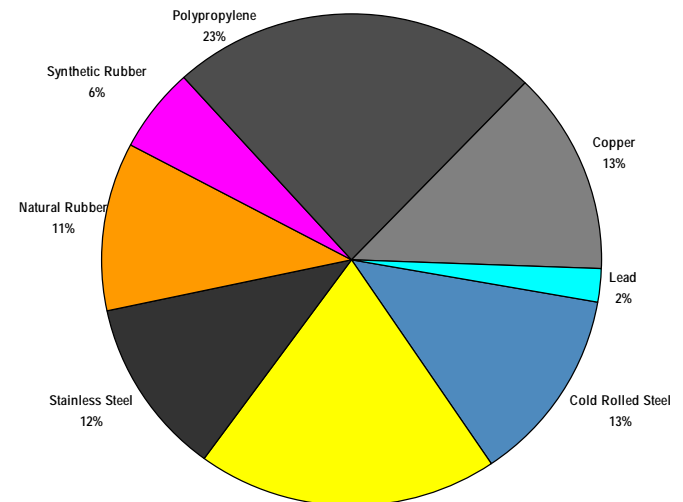


Indexed to 100 by January 2003

Source: CRU Monitor, Bloomberg, Datastream, Wardsauto.com, J.P. Morgan estimates
 Note: Commodities we track represent approximately 87% of the total raw material by weight in a light vehicle.

- 1 Hot rolled steel and Cold rolled steel prices from CRU Monitor
 - 2 Aluminum, Lead and Copper Cash (Spot) market prices from LME
 - 3 Stainless Steel Asia 2mm CR Coil from MBSTCHSC Index
 - 4 Natural rubber and synthetic rubber price (SBR EO 1712 polymer) from Bloomberg
 - 5 Polypropylene NA Domestic Market (Contract) GP- Homopolymer from CMAI
- Weighted commodity index composed of following materials: Hot & Cold Rolled Steel, Aluminum, Stainless Steel, Natural & Synthetic Rubber, Polypropylene, Copper & Lead.

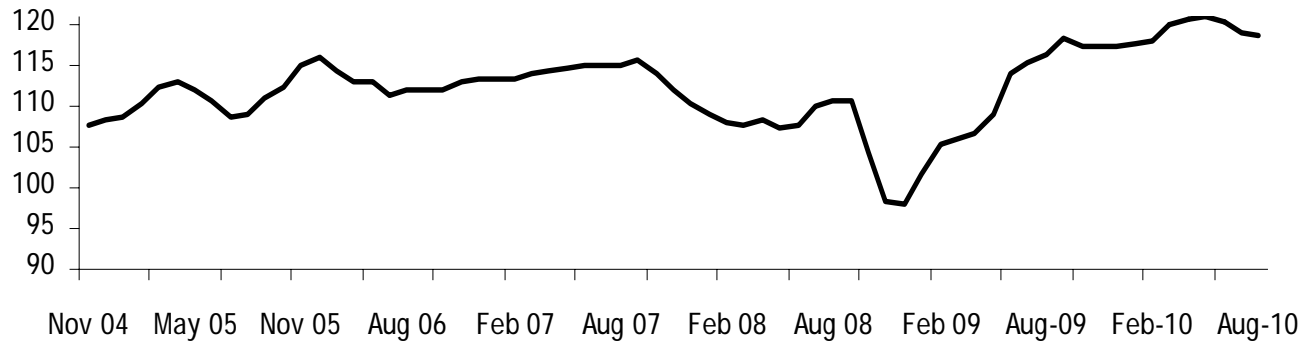
Weighted Raw Material Index Composition by Cost



US Used Vehicle Pricing

Manheim Used Vehicle Index

(January 1995=100)



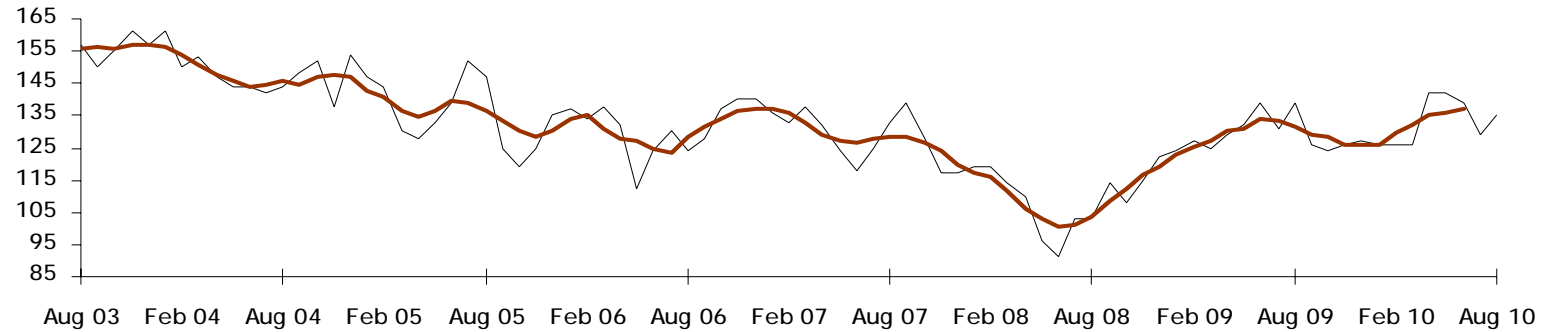
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	vs. prior Dec
2004	104.7	104.8	106.6	107.6	107.9	107.1	106.5	106.2	106.3	106.4	107.7	108.2	2.8%
2005	108.8	110.3	112.2	112.9	112.1	110.7	108.8	109.1	110.9	112.5	114.9	116.1	7.3%
2006	116.3	115.5	114.9	114.2	112.9	112.9	111.4	112.1	111.9	112.0	112.9	113.5	-2.2%
2007	113.3	113.3	114.1	114.2	114.7	114.9	114.9	115.1	115.8	113.9	111.9	110.2	-2.9%
2008	109.1	108.1	107.7	108.4	107.5	107.8	109.9	110.7	110.8	104.2	98.3	98.0	-11.1%
2009	101.7	105.5	106.1	106.6	109.1	114.1	115.4	116.4	118.5	117.4	117.4	117.5	19.9%
2010	117.6	118.1	119.9	120.7	121.0	120.2	118.9	118.8					
vs. prior mo.	0.1%	0.4%	1.5%	0.7%	0.2%	-0.7%	-1.1%	-0.1%					

Source: Manheim Consulting

US Consumer Confidence for Car Buying

University of Michigan Consumer Confidence Index – Buying Conditions for Cars

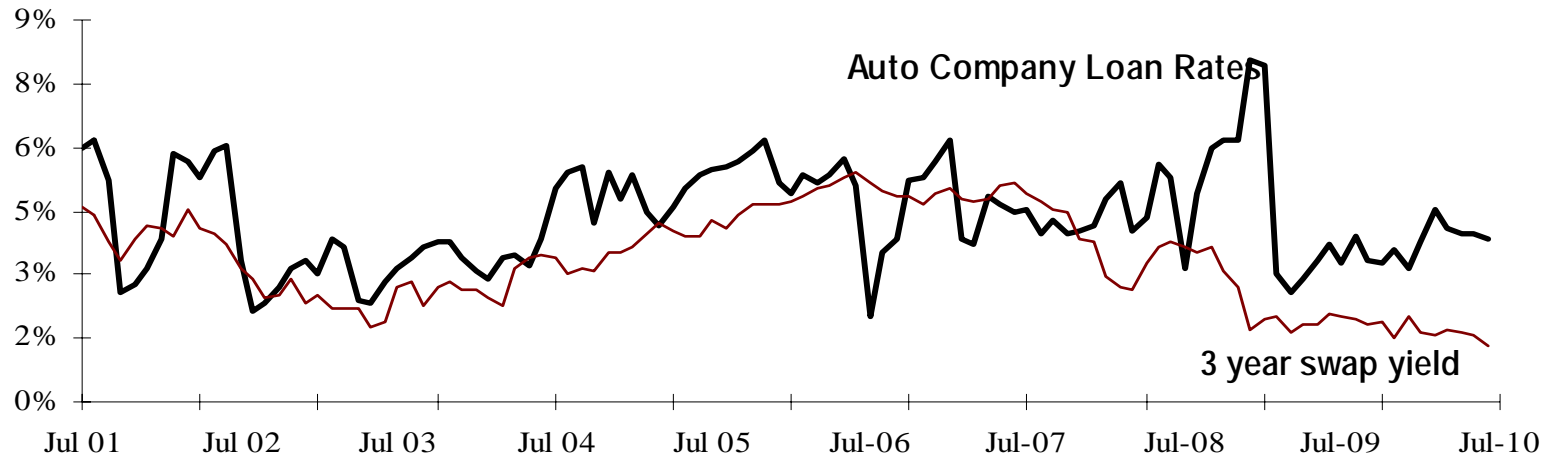
Unsmoothed and five-month moving average



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	vs. prior Dec
2003	152.0	140.0	144.0	149.0	160.0	157.0	159.0	157.0	150.0	155.0	161.0	157.0	1.3%
2004	161.0	150.0	153.0	147.0	144.0	144.0	142.0	144.0	148.0	152.0	138.0	154.0	-1.9%
2005	147.0	144.0	130.0	128.0	133.0	139.0	152.0	147.0	125.0	119.0	125.0	135.0	-12.3%
2006	137.0	134.0	138.0	132.0	112.0	124.0	130.0	124.0	128.0	137.0	140.0	140.0	3.7%
2007	136.0	133.0	138.0	132.0	124.0	118.0	125.0	133.0	139.0	128.0	117.0	117.0	-16.4%
2008	119.0	119.0	114.0	110.0	96.0	91.0	103.0	103.0	114.0	108.0	115.0	122.0	4.3%
2009	124.0	127.0	125.0	129.0	132.0	139.0	131.0	139.0	126.0	124.0	126.0	127.0	4.1%
2010	126.0	126.0	126.0	142.0	142.0	139.0	129.0	135.0					
vs. prior mtl	-0.8%	0.0%	0.0%	12.7%	0.0%	-2.1%	-7.2%	4.7%					

Source: University of Michigan

Auto Finance Company Loan Rates



Auto Company Loan Rates

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2002	4.0%	6.1%	5.9%	5.5%	6.2%	6.3%	3.5%	2.2%	2.4%	2.8%	3.3%	3.5%
2003	3.1%	4.0%	3.8%	2.5%	2.4%	2.9%	3.3%	3.6%	3.8%	3.9%	3.9%	3.6%
2004	3.2%	3.0%	3.5%	3.6%	3.3%	4.0%	5.3%	5.6%	5.7%	4.4%	5.6%	5.0%
2005	5.6%	4.7%	4.4%	4.8%	5.3%	5.6%	5.7%	5.8%	5.9%	6.1%	6.4%	5.4%
2006	5.1%	5.5%	5.4%	5.6%	6.0%	5.3%	2.1%	3.7%	4.0%	5.4%	5.5%	5.9%
2007	6.5%	4.0%	3.9%	5.0%	4.9%	4.7%	4.7%	4.1%	4.5%	4.1%	4.2%	4.3%
2008	5.0%	5.4%	4.2%	4.5%	5.8%	5.5%	3.3%	5.1%	6.2%	6.4%	6.4%	8.4%
2009	8.2%	3.2%	2.7%	3.0%	3.5%	3.9%	3.4%	4.1%	3.5%	3.4%	3.7%	3.3%
2010	3.9%	4.7%	4.3%	4.1%	4.1%	4.0%						

Source: Federal Reserve Board and J.P. Morgan Fixed Income Research

Flatter SAAR; Production/ Inventory Walks; Estimates/Ratings Changes

New Volumes Assumptions

Revised JPMorgan unit volume forecast (MM units)

	JPM - New				JPM - Old				CSM		
	2010E	2011E	2012E		2010E	2011E	2012E		2010E	2011E	2012E
US SAAR	11.4	11.5	12.0		11.5	12.5	14.0		11.5	13.2	NA
NA Production	11.8	10.8	11.3		11.6	11.8	13.0		11.8	12.5	13.5
Western Europe SAAR	12.7	12.2	12.5		12.9	13.0	14.0		NA	NA	NA
Pan-Europe Production	17.9	16.7	17.1		17.5	17.7	18.6		17.8	18.2	19.1

Source: J.P. Morgan Estimates; CSM Auto

Why Now?

4 factors in last 30-60 days brought us to our more conservative forecasts:

- 1. Disappointing back to back July and Aug SAAR** figures both regions (US failed to rise, Europe fell) → Flatter SAAR for balance of 2010 almost certain.
- 2. Weaker JPM GDP outlook** for 2010 and 2011 → flatter SAAR through 2011.
- 3. Refined European SAAR-to-production walk**
 - Newly received granular data on European export and European imports helped reveal sizable inventory build by 2010 year-end (also in NA to lesser extent).
- 4. Detailed discussion with CSM on their 2011 production basis** (CSM in Europe is +0.4MM to 18.2MM and in NA +0.7MM to 12.5MM).
 - When asked, CSM also attributes 2010 European production strength (in the face of weakening European SAAR) to sizable inventory rebuilding (though they were unable to quantify it).
 - **CSM's 2011 production forecast does loosely embed** a) sizable US SAAR growth and b) ~0.7MM of further European inventory growth in 2011, although they think the 2010e increase will only be +0.7MM (not JPM's estimated +1.3MM, though they can't seem to explain the derivation of their figure).

New Estimates, PTs, and Ratings

New Estimates

- EPS cuts for 2011e (vs. old JPM) can be summarized as:
 - **Down 5-10%** at ALV, AN, ARM, BWA, GNTX, GPI, HOG, LAD, KAR, and SAH
 - **Down 10-20%** at AXL, CTB, F, JCI, MGA, PAG, and TRW
 - **Down 20-30%** at DAN, GT, HAR, LEA, and TEN.

Published Rating Changes

- Downgraded the following names from **OW to Neutral**
 - **BWA, DAN, HAR, KAR, LEA, MGA, TEN, PAG, and SAH.**
- Near-term, we are lukewarm on OW-rated **ALV, CTB, GPI, GT, TSLA, and TRW**

Where Did We Struggle the Most on Ratings Decisions?

- Our downgrades of **HAR and BWA** were tough calls:
 - **HAR** – luxury focus may immunize it more than others from Europe inventory issue (hence \$39 price target).
 - **BWA** – high odds of upward resetting of 2010 base, which potentially aids 2011 EPS.
- **GT** – Maintain Overweight despite big EPS cuts on view the stock is near 52-week lows and expectations are washed out.

Summary of Estimate Changes

Ticker	Rating	Current Price	New PT	Old PT	New Estimates			Old Estimates			Bloomberg Consensus		
					2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
AXL	N	8.9	13.0	12.0	\$1.39	\$1.10	\$1.30	\$1.30	\$1.35	\$1.70	\$1.21	\$1.53	\$1.72
ARM*	N	14.1	15.0	15.0	\$261	\$360	\$440	\$260	\$375	\$460	\$256	\$387	\$501
ALV	OW	58.3	69.0	73.0	\$5.56	\$5.20	\$5.30	\$5.55	\$5.65	\$5.90	\$5.59	\$5.81	\$6.11
BWA	N	46.3	51.0	49.0	\$2.68	\$3.20	\$3.65	\$2.70	\$3.50	\$4.00	\$2.74	\$3.52	\$4.03
DAN*	N	10.5	15.0	15.0	\$520	\$570	\$645	\$520	\$630	\$740	\$535	\$700	\$773
GNTX	N	18.4	21.0	22.0	\$0.98	\$1.03	\$1.15	\$0.97	\$1.10	\$1.20	\$0.96	\$1.12	\$1.29
HAR	N	33.9	40.0	48.0	\$0.97	\$1.60	\$2.75	\$0.97	\$2.15	\$3.40		\$1.96	\$2.91
JCI	N	28.1	38.0	34.0	\$2.00	\$2.20	\$2.80	\$2.00	\$2.60	\$3.20	\$1.96	\$2.45	\$2.87
LEA*	N	73.6	98.0	92.0	\$786	\$855	\$1,000	\$782	\$1,005	\$1,215	\$758	\$926	\$1,090
MGA	N	79.2	82.0	90.0	\$7.84	\$6.65	\$7.25	\$7.77	\$7.50	\$8.50	\$7.54	\$8.10	\$8.95
TRW	OW	36.9	44.0	48.0	\$5.00	\$4.35	\$4.60	\$5.00	\$5.20	\$5.75	\$4.88	\$5.17	\$5.73
TEN	N	26.6	31.0	30.0	\$1.75	\$1.70	\$2.35	\$1.73	\$2.15	\$3.00	\$1.56	\$2.52	\$3.35
F	N	11.9	14.0	16.0	\$2.00	\$1.70	\$1.70	\$2.00	\$2.00	\$2.10	\$1.79	\$1.90	\$1.91
CTB	OW	18.3	26.0	26.0	\$2.27	\$1.90	\$2.00	\$2.27	\$2.15	\$2.35	\$2.22	\$2.33	\$2.67
GT	OW	9.9	16.0	19.0	\$0.68	\$1.15	\$1.85	\$0.68	\$1.55	\$2.40	\$0.45	\$1.55	\$2.31
AN	N	24.1	23.0	23.0	\$1.48	\$1.60	\$1.75	\$1.50	\$1.75	\$2.05	\$1.50	\$1.81	\$1.91
GPI	OW	27.9	37.0	37.0	\$2.37	\$2.65	\$2.85	\$2.40	\$2.85	\$3.45	\$2.54	\$3.06	\$3.55
LAD	N	8.4	9.0	11.0	\$0.74	\$0.90	\$1.00	\$0.76	\$1.00	\$1.25	\$0.79	\$1.01	\$1.25
PAG	N	12.9	16.0	18.0	\$1.18	\$1.20	\$1.25	\$1.20	\$1.35	\$1.55	\$1.15	\$1.45	\$1.60
SAH	N	9.0	13.0	15.0	\$0.92	\$1.05	\$1.10	\$0.92	\$1.15	\$1.30	\$0.91	\$1.23	\$1.32
HOG	N	26.6	34.0	33.0	\$1.93	\$2.15	\$2.40	\$1.90	\$2.35	\$2.90	\$1.50	\$2.10	\$2.65
KAR*	N	12.5	18.0	19.0	\$475	\$485	\$495	\$475	\$510	\$565	\$468	\$508	\$550

Source: Bloomberg and J.P. Morgan estimates. * EBITDA estimates as a proxy of EPS for ARM, DAN, LEA, KAR; Rest other estimates are EPS estimates.

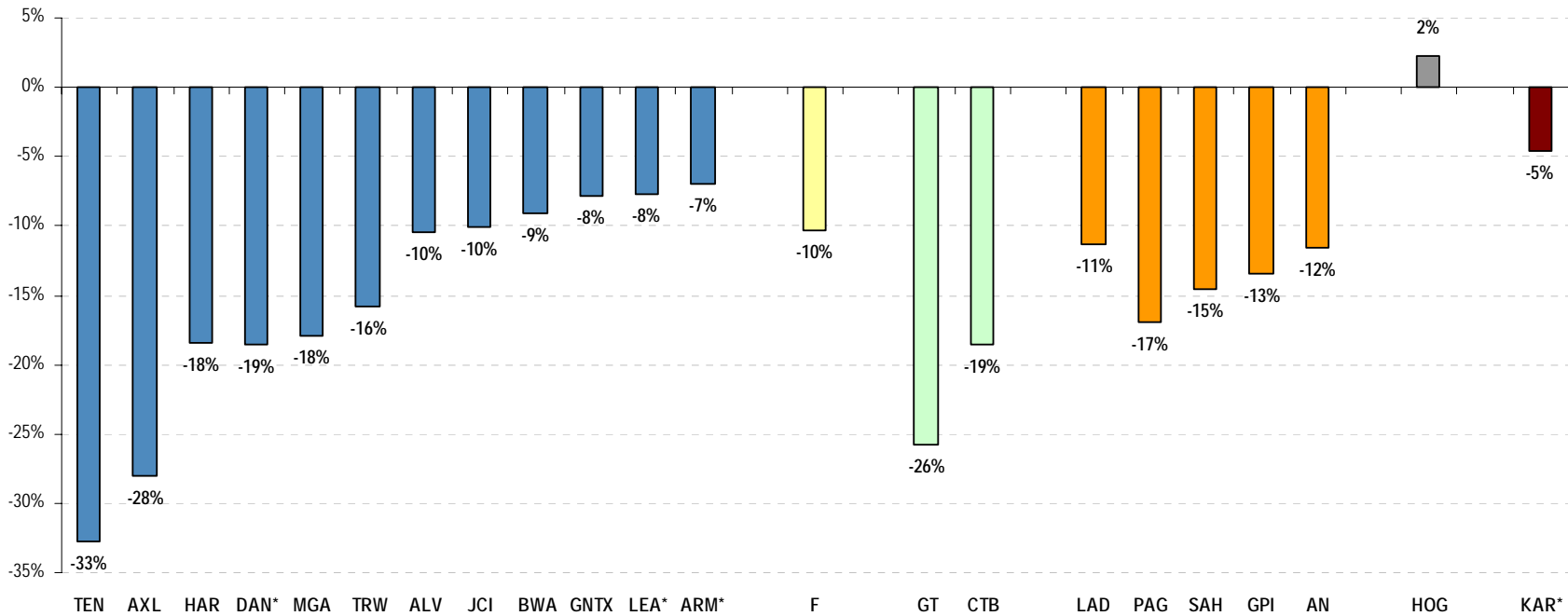
Summary of Price Target Changes

Ticker	Rating	Current Price	Valuation Approach	New				Old			
				Year	Multiple	EPS	Price Target	Year	Multiple	EPS	Price Target
AXL	N	8.7	P/E	2011E	9.0x	1.10	10.0	2011E	9.0x	1.35	12.0
ARM*	N	13.9	EV/EBITDAPO	2011E	6.5x	360	14.0	2011E	6.5x	375	15.0
ALV	OW	57.4	P/E	2011E	13.0x	5.20	68.0	2011E	13.0x	5.65	73.0
BWA	N	46.6	P/E	2011E	14.0x	3.20	45.0	2011E	14.0x	3.50	49.0
DAN*	N	10.5	EV/EBITDA	2011E	4.0x	570	12.0	2011E	4.5x	630	15.0
GNTX	N	18.3	P/E	2011E	20.0x	1.03	21.0	2011E	20.0x	1.10	22.0
HAR	N	33.3	P/E	2012E	14.0x	2.75	39.0	2012E	14.0x	3.45	48.0
JCI	N	27.9	P/E	2011E	13.0x	2.20	29.0	2011E	13.0x	2.60	34.0
LEA*	N	74.3	EV/EBITDARPO	2011E	4.5x	855	81.0	2011E	4.5x	1,005	92.0
MGA*	N	79.5	EV/EBITDAPO	2011E	5.0x	1,798	85.0	2011E	5.0x	1,937	90.0
TRW*	OW	36.4	EV/EBITDAPO	2011E	5.0x	1,402	42.0	2011E	5.0x	1,554	48.0
TEN	N	25.6	P/E	2011E	14.0x	1.70	24.0	2011E	14.0x	2.15	30.0
F*	N	11.8	EV/EBITDA	2011E	5.0x	11727	14.0	2011E	5.0x	13212	16.0
CTB	OW	18.2	P/E	2011E	12.0x	1.90	23.0	2011E	12.0x	2.15	26.0
GT	OW	9.9	P/E	2012E	8.0x	1.85	15.0	2012E	8.0x	2.40	19.0
AN	N	23.9	P/E	2011E	13.0x	1.60	21.0	2011E	13.0x	1.75	23.0
GPI	OW	27.9	P/E	2011E	12.0x	2.65	32.0	2011E	13.0x	2.85	37.0
LAD	N	8.1	P/E	2011E	11.0x	0.90	10.0	2011E	11.0x	1.00	11.0
PAG	N	12.7	P/E	2011E	12.0x	1.20	14.0	2011E	13.0x	1.35	18.0
SAH	N	8.9	P/E	2011E	10.0x	1.05	10.5	2011E	13.0x	1.15	15.0
HOG	N	26.3	P/E	2011E	14.0x	2.15	30.0	2011E	14.0x	2.35	33.0
KAR*	N	12.3	EV/EBITDA	2011E	7.5x	485	14.0	2011E	8.7x	510	19.0

Source: J.P. Morgan Estimates, Bloomberg; All prices are as of Sept 8, 2010; * EBITDA estimates for ARM, DAN, LEA, MGA, TRW, F and KAR.

JPM Revised 2011 Estimates vs. Bloomberg Consensus

Relative to 2011 consensus, we are most below at TEN, AXL, GT, CTB, DAN, HAR, and MGA.



Source: J.P. Morgan Estimates, Bloomberg; * EBITDA estimates as a proxy of EPS for ARM, DAN, LEA, KAR; Rest other estimates are EPS estimates.

US LV SAAR to NA Production Walk

	2005	2006	2007	2008	2009	2010E	2011E	2012E
US SAAR	17.0	16.6	16.1	13.2	10.4	11.4	11.5	12.0
(+) Canada Sales	1.6	1.6	1.7	1.6	1.5	1.5	1.6	1.6
(+) Mexico Sales	1.1	1.1	1.1	1.0	0.8	0.8	0.8	0.9
Total NA Sales	19.7	19.3	18.9	15.9	12.6	13.7	13.9	14.5
(+) Exports to Europe from US	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
(+) Exports to Asia from US	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(+) Exports to RoW from US	0.6	0.6	0.8	0.5	0.2	0.2	0.2	0.2
Total Exports from US	0.8	0.8	1.0	0.6	0.3	0.3	0.3	0.3
(-) Imports from Japan to US	(1.7)	(2.1)	(2.2)	(2.0)	(1.4)	(1.6)	(1.6)	(1.7)
(-) Imports from Asia ex-Japan to US	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)	(0.8)	(0.9)	(0.9)
(-) Imports from Europe to US	(0.9)	(0.9)	(0.9)	(0.8)	(0.7)	(0.7)	(0.7)	(0.8)
Total Imports to US	(3.4)	(3.9)	(4.0)	(3.5)	(2.9)	(3.1)	(3.2)	(3.3)
US Inventory - start	3.7	3.5	3.4	3.1	3.1	1.9	2.4	2.4
US Inventory - end	3.5	3.4	3.1	3.1	1.9	2.4	2.4	2.5
US Inventory Change	(0.2)	(0.1)	(0.3)	(0.0)	(1.2)	0.5	0.0	0.1
Other	(1.0)	(0.8)	(0.5)	(0.4)	(0.3)	0.4	(0.3)	(0.4)
NA Production	15.8	15.3	15.2	12.6	8.6	11.8	10.8	11.3
<i>Memo: NA Production vs. US SAAR Spread</i>	(1.2)	(1.2)	(1.0)	(0.6)	(1.8)	0.4	(0.7)	(0.7)
<i>Memo: Inventory (end) as % of US sales</i>	20%	21%	19%	23%	18%	21%	21%	21%
<i>Number of Selling Days</i>	307	306	307	309	308	306	307	307
<i>Inventory Days Supply (DSO)</i>	63	63	60	72	55	64	64	64

Represents non-US net *imports* into Canada/Mexico plus changes in Canada/Mexico dealer inventories.

	2005	2006	2007	2008	2009	2010E	2011E	2012E
US SAAR		-2.6%	-2.5%	-18.0%	-21.2%	9.3%	0.9%	4.3%
(+) Canada Sales		2.1%	2.4%	-1.0%	-10.7%	6.0%	2.0%	3.0%
(+) Mexico Sales		0.7%	-3.5%	-6.7%	-26.3%	3.0%	7.0%	3.0%
Total NA Sales		-2.0%	-2.1%	-15.9%	-20.5%	8.5%	1.3%	4.1%
(+) Exports to Europe from US		22.4%	21.5%	0.5%	-38.8%	-7.3%	-3.9%	2.5%
(+) Exports to Asia from US		-38.8%	-4.9%	-26.8%	-55.5%	5.0%	5.0%	5.0%
(+) Exports to RoW from US		-0.8%	36.6%	-46.6%	-54.5%	5.0%	5.0%	5.0%
Total Exports		1.3%	32.7%	-38.0%	-50.1%	0.7%	2.1%	4.2%
(-) Imports from Japan to US		23.0%	4.1%	-10.2%	-26.3%	9.3%	0.9%	4.3%
(-) Imports from Asia ex-Japan to US		1.1%	1.8%	-15.2%	3.5%	9.3%	0.9%	4.3%
(-) Imports from Europe to US		2.0%	1.5%	-12.9%	-17.3%	9.3%	0.9%	4.3%
Total Imports to US		12.2%	3.0%	-11.9%	-17.9%	9.3%	0.9%	4.3%
NA Production		-3.0%	-1.0%	-16.7%	-32.1%	37.0%	-8.2%	4.4%

Source: AutoData; Wards Auto; J.P. Morgan Estimates

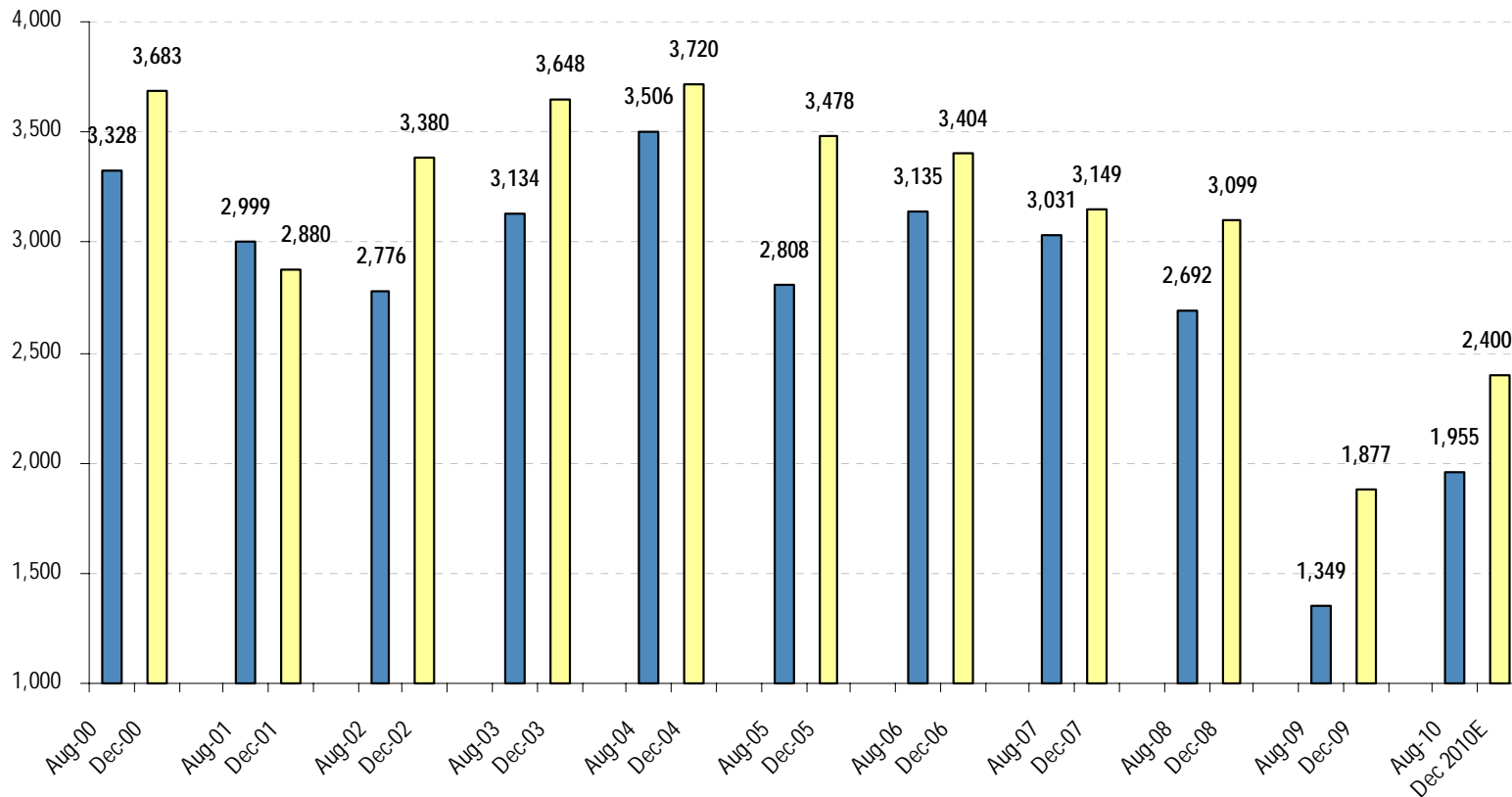
Thoughts on NA Production in 2010-2012

- **Revised NA production forecasts:** 11.8MM in 2010; 10.8MM in 2011; 11.3MM in 2012

- **11.8MM NA production in '10 (consistent with CSM) assumes:**
 - US SAAR remains flat at 11.5MM in Sept-Dec (vs. Aug)
 - US inventories rise 0.4MM in 2010 to 2.4MM (vs. Aug's 2.0MM) — seasonally normal.
 - “Other” (Canada/Mexico exports/imports/inventory change) flips to +0.4MM (vs. ~-0.4 historically)

- **Bottom line:** '10 NA production rate not sustainable into '11 w/o notable sales improvement
 - We estimate 10.8MM production in 2011 on flattish sales outlook
 - Expect 11.3MM production in 2012 on modest sales recovery (US SAAR est. at 12.0MM)

Historical U.S. Inventories at Aug-end and Dec-end



Source: AutoData and J.P. Morgan estimates.

➤ **Inventories typically rise ~0.4-0.6MM from August to December**

➤ Est. 0.5MM addition by Dec-2010 from Aug-end levels seems reasonable, therefore.

Western Europe SAAR to Pan-European Production Walk

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Western European (PV) Sales	14.5	14.8	14.8	13.6	13.7	12.7	12.2	12.5
(+) Central/ Eastern Europe (PV)	0.7	1.1	1.2	1.2	0.9	0.9	0.9	1.0
(+) Pan-Europe LCV sales	2.1	2.1	2.2	2.0	1.4	1.5	1.5	1.6
(+) Russia (PV+LCV) sales	1.4	1.8	2.4	2.9	1.5	1.5	1.6	1.7
(+) Other PC + LCV (Turkey, Ukraine, Belarus, etc)	1.6	1.3	1.5	1.3	0.8	0.8	0.9	0.9
Gross Pan Europe Sales	20.3	21.0	22.1	21.0	18.2	17.4	17.2	17.7
(+) Exports to NAFTA	1.1	1.1	1.0	0.9	0.8	1.0	1.0	1.0
(+) Exports to China/Taiwan	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
(+) Exports to Korea	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(+) Exports to RoW	0.7	0.7	0.8	0.6	0.6	0.6	0.6	0.7
Gross Exports	1.9	1.9	1.9	1.7	1.6	1.8	1.9	2.0
(-) Imports from Japan	-1.1	-1.2	-1.4	-1.5	-0.7	-0.7	-0.7	-0.7
(-) Imports from Korea	-0.7	-0.7	-0.7	-0.4	-0.4	-0.4	-0.4	-0.5
(-) Imports from North America	-0.2	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4
(-) Imports from RoW	-0.6	-0.6	-0.7	-0.6	-1.0	-1.2	-1.1	-1.1
Gross Imports	-2.6	-2.8	-3.1	-3.0	-2.4	-2.6	-2.6	-2.7
(+/-) Change in European Inventory	0.4	0.4	0.8	0.9	-1.1	1.3	0.3	0.1
= Pan European Production	19.9	20.4	21.7	20.5	16.3	17.9	16.7	17.1

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Western European (PV) Sales		1.8%	0.2%	-8.3%	0.8%	-7.1%	-3.9%	2.5%
(+) Central/ Eastern Europe (PV)		40.9%	14.6%	-2.6%	-27.2%	5.0%	5.0%	5.0%
(+) Pan-Europe LCV sales		0.8%	6.5%	-10.4%	-29.3%	5.0%	3.0%	5.0%
(+) Russia (PV+LCV) sales		28.7%	30.9%	22.7%	-49.4%	5.0%	5.0%	5.0%
(+) Other PC + LCV (Turkey, Ukraine, Belarus, etc)		-19.5%	16.5%	-10.8%	-43.2%	10.0%	5.0%	5.0%
Gross Pan Europe Sales		3.3%	5.2%	-5.1%	-13.4%	-3.9%	-1.7%	3.2%
(+) Exports to NAFTA		-2.8%	-5.3%	-8.9%	-14.6%	21.5%	0.9%	4.3%
(+) Exports to China/Taiwan		7.5%	36.5%	17.8%	35.7%	10.0%	10.0%	10.0%
(+) Exports to Korea		31.9%	22.1%	11.5%	15.4%	5.0%	5.0%	5.0%
(+) Exports to RoW		6.9%	4.5%	-19.5%	-3.1%	5.0%	5.0%	5.0%
Gross Exports		1.4%	0.4%	-11.4%	-6.3%	13.8%	3.3%	5.2%
(-) Imports from Japan		13.3%	15.1%	5.1%	-55.6%	10.1%	-3.9%	2.5%
(-) Imports from Korea		2.5%	-9.3%	-31.4%	-21.5%	10.1%	10.0%	10.0%
(-) Imports from North America		41.2%	35.7%	16.9%	-21.4%	10.1%	-3.9%	2.5%
(-) Imports from RoW		-4.8%	7.4%	-1.4%	61.0%	10.1%	-3.9%	2.5%
Gross Imports		8.0%	9.3%	-2.5%	-20.8%	10.1%	-1.9%	3.7%
= Pan European Production		2.3%	6.4%	-5.6%	-20.6%	10.1%	-6.6%	2.0%

Source: CSM, Wards Auto; AutoData; ACEA; J.D. Power; Company reports and J.P. Morgan estimates.

Thoughts on European Production in 2010-2012

- **Revised Pan European production forecasts:** 17.9MM in 2010; 16.7MM in 2011; 17.1MM in 2012

- **17.9MM Pan European production in '10 assumes:**
 - Western Europe SAAR of 12.7MM in 2010 (implying SAAR to be seq. flat at 11.8MM in Sept-Dec)
 - +10-15% growth in European imports/exports in '10
 - European inventories will have grown by 1.3MM in '10 (vs. -1.1MM in '09)

- **16.7MM production forecast in 2011 assumes:**
 - Western Europe SAAR of 12.2MM
 - Addition of 0.3MM units of inventories

- **17.1MM production forecast in 2012 assumes:**
 - Western Europe SAAR of 12.5MM
 - Addition of 0.1MM units of inventories

- **Bottom line:** In 2011, flat SAAR and non-repeat of further inventory rebuild means production could decline.
 - We have chosen to err on the side of being conservative in our production math where possible, but we think CSM is excessively positive.

BWA/HAR – Downgrade to Neutral, But Positive Long-Term

Borg Warner (BWA)

- **Downgrade to Neutral** on lower industry production outlook in 2011/2012
 - Upside is limited near-term as valuation appears to be full
 - Upside to 3Q estimates still appears to be likely
- **Remain positive on the stock long-term on better than peer growth potential**

Harman International (HAR)

- **Downgrade to Neutral** on lower luxury vehicle production estimates
 - Revised 2011/2012 EPS estimates are ~20-25% below earlier estimates
 - But luxury may prove to be one of the areas with better than market inventory situation at year-end, something not factored into our estimates.
- **Positive long-term as substantial backlog on-boarding in 2012 and beyond would benefit**
 - Could become more constructive on pullbacks

MGA/TEN – Downgrade to Neutral, But Positive Long-Term

Magna International (MGA)

- **Downgrade to Neutral** on lower industry production outlook in 2011/2012
 - Revised EPS estimates are 10-15% below earlier estimates
 - Still believe upside to 3Q estimates is likely
- **Remain positive on the stock long-term due to European margin expansion, though near-term catalyst related to dual class share collapse is behind us.**

Tenneco (TEN)

- **Downgrade to Neutral** on lower vehicle production estimates
 - See limited upside to current prices
 - Revised 2011/2012 EPS estimates are ~20% below earlier estimates
 - High financial leverage makes EPS highly sensitive to volume changes.
- **Still perhaps our favorite 3-5 year pick**
 - ... continue to believe stock could double by mid-decade

LEA/DAN – Downgrade to Neutral

Lear Corporation (LEA)

- **Downgrade to Neutral** on lower LV volume assumptions in 2011/2012
 - See limited upside from current levels
 - Revised estimates are 15-20% lower than earlier estimates

Dana Holding Corporation (DAN)

- **Downgrade to Neutral** on lower LV and CV volume assumptions in 2011/2012
 - Commercial vehicle volume forecasts lowered by 10K units each in NA/Europe in 2011/2012
 - **Revised CV build assumptions are:**
 - NA Class 8 (190K in 2011, 230K in 2012)
 - NA Class 5-7 (140K in 2011, 170K in 2012)
 - Europe heavy commercial vehicles (190K in 2011, 240K in 2012)
 - Target valuation multiple also cut (4.0 from 4.5x) on view that stocks like DAN largely dependent over next 12 months on cyclical forces (as opposed to secular forces) would get less love from market in a flatter economic recovery scenario.

ALV/TRW — Maintained at Overweight

- Highly comfortable on ALV, particularly on valuation
- Believe TRW can manage through potentially softer volumes better than nearly all companies we cover.
- Both are inexpensive even on our lower volumes outlook.

State of the Auto Industry – Credit Slides

Presented by Eric J. Selle, CFA

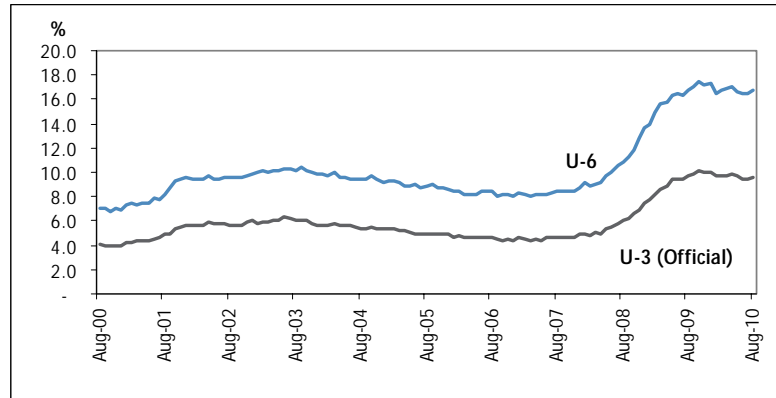
Contact Info

Email: eric.j.selle@jpmorgan.com

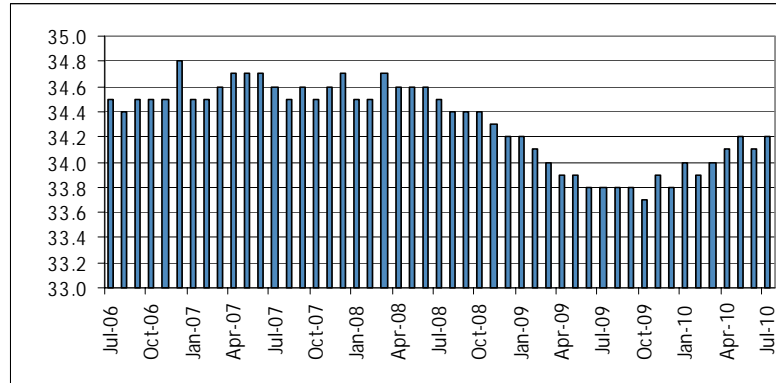
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Macro Environment

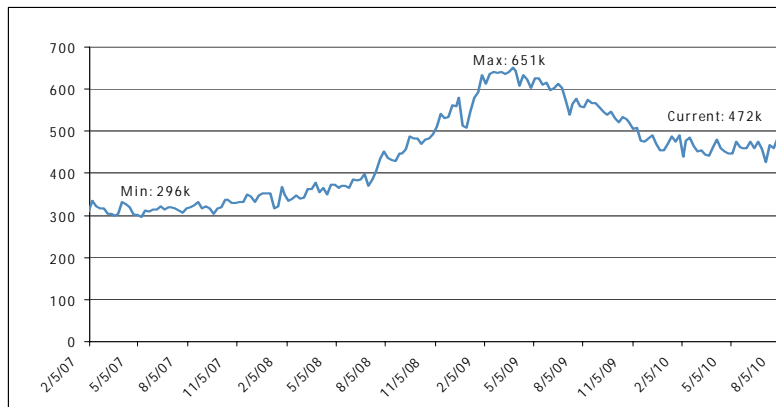
➤ U-3 and U-6 Unemployment



➤ Average Weekly Work Hours

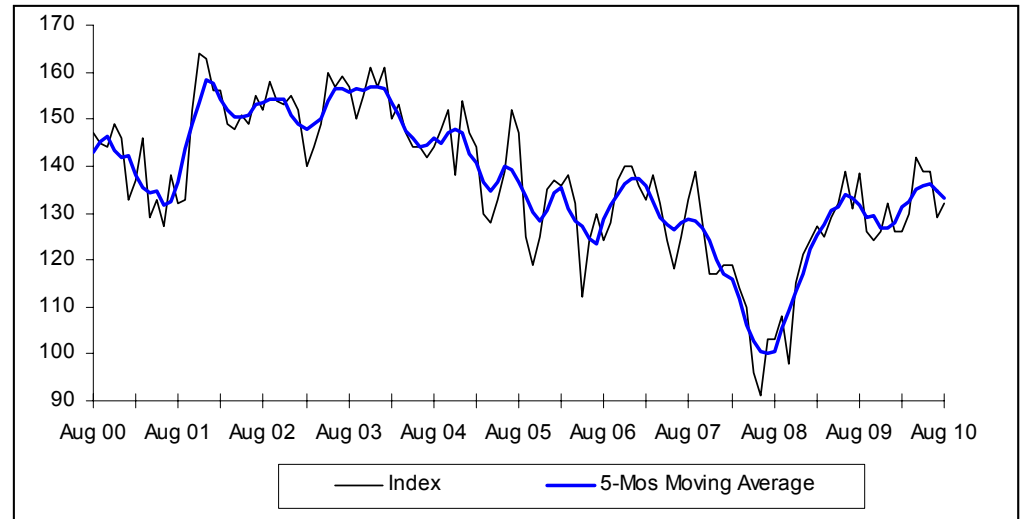


➤ Jobless Claims

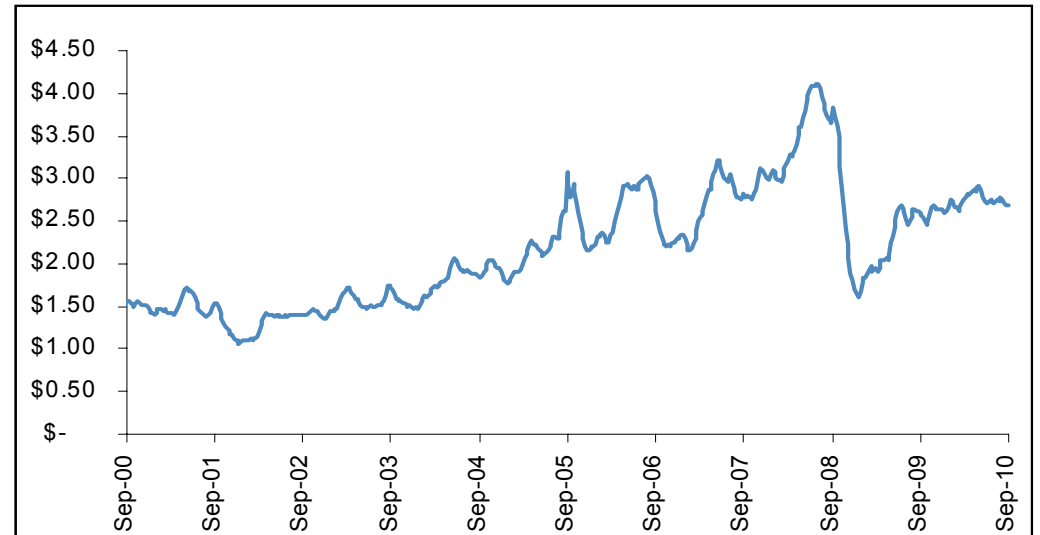


Macro Environment

➤ Consumer Confidence



➤ Retail Gas Prices

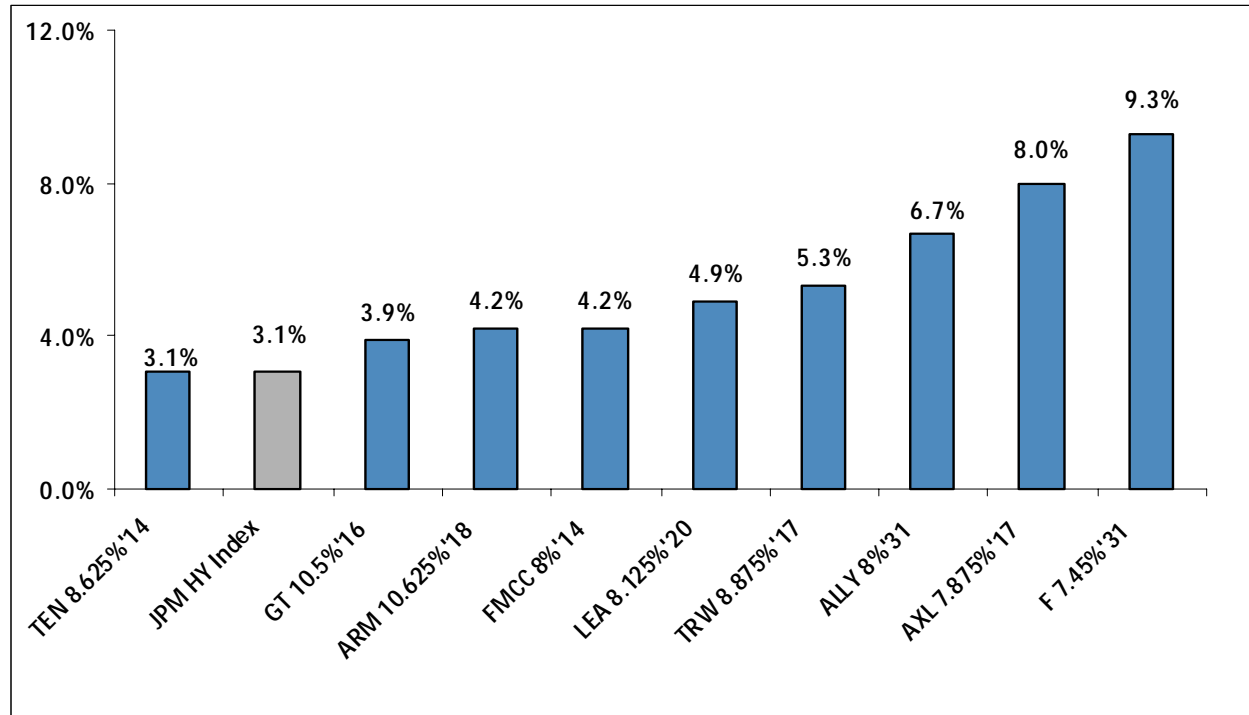


Credit Fundamentals: 2010E

2010 ESTIMATED						
Credit	EBITDA (\$millions)	Interest Coverage	Total Leverage	Net Leverage	TEV / Sales	TEV / EBITDA
ARM	\$263	2.4x	4.3x	3.2x	0.4x	8.4x
AXL	\$292	3.2x	3.6x	2.8x	0.7x	5.0x
CTB	\$345	11.2x	1.4x	0.2x	0.4x	3.4x
DAN	\$497	5.8x	1.9x	-0.1x	0.3x	3.0x
FDML	\$631	4.8x	4.5x	2.7x	0.6x	5.4x
F	\$9,488	4.7x	2.8x	0.4x	0.4x	4.8x
GT	\$1,289	3.9x	3.8x	2.5x	0.3x	4.4x
JCI	\$2,271	13.5x	1.5x	1.2x	0.6x	9.5x
LEA	\$735	11.6x	1.0x	-1.0x	0.3x	4.3x
TEN	\$503	3.9x	2.4x	2.1x	0.5x	5.3x
TRW	\$1,438	8.0x	1.4x	0.8x	0.4x	3.9x
AVERAGE	\$1,614	6.6x	2.6x	1.3x	0.4x	5.2x

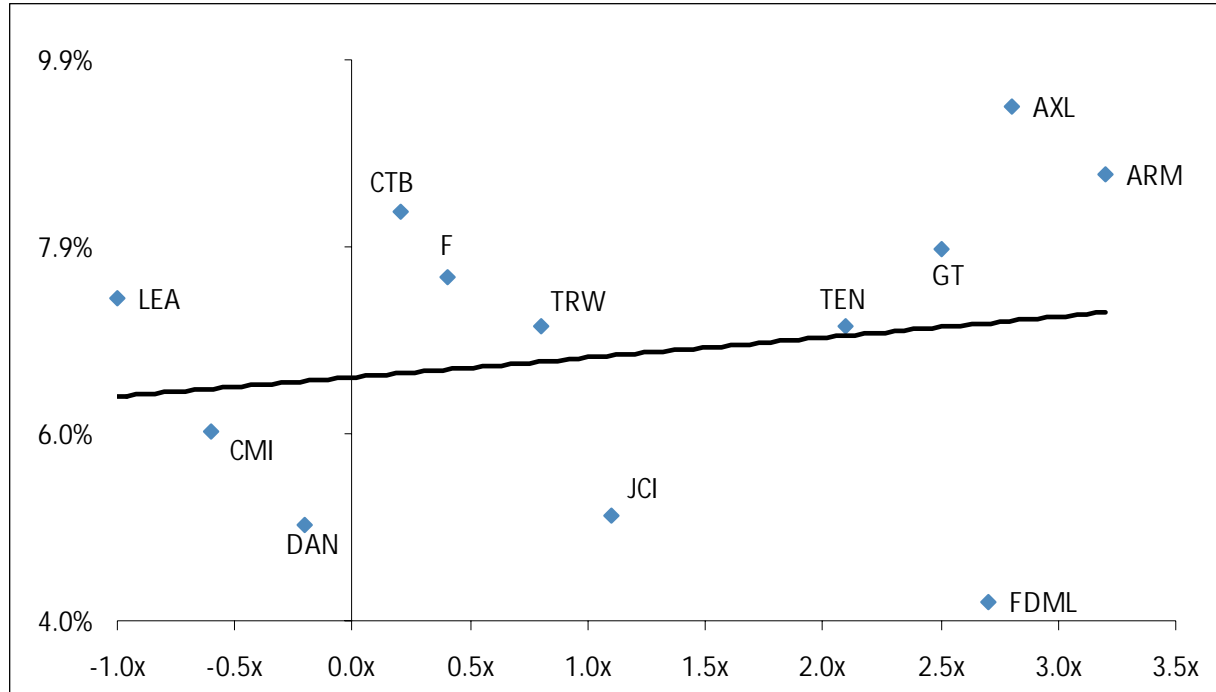
Source: Company Reports; J.P. Morgan Estimates

Quarter-to-Date Total Returns: (key benchmark issues from 6/30/10-8/31/10)



Source: DataQuery, J.P. Morgan

YTW vs. 2010E Net Leverage (as of 8/31/2010)



Source: Bloomberg, J.P. Morgan estimates, DataQuery

Production Outlook

	<u>1Q08</u>	<u>2Q08</u>	<u>3Q08</u>	<u>4Q08</u>	<u>2008</u>	<u>1Q09</u>	<u>2Q09</u>	<u>3Q09</u>	<u>4Q09</u>	<u>2009</u>
North American Production	3,494,947	3,482,786	2,970,371	2,689,040	12,637,144	1,698,596	1,776,597	2,354,836	2,751,673	8,581,702
y/y Change						-51%	-49%	-21%	2%	-32%
Sequential Change		0%	-15%	-9%		-37%	5%	33%	17%	
European Production	5,778,371	5,939,348	4,776,360	3,995,492	20,489,571	3,429,871	4,240,740	4,078,352	4,511,602	16,260,565
y/y Change						-41%	-29%	-15%	13%	-21%
Sequential Change		3%	-20%	-16%		-14%	24%	-4%	11%	
Asia-Pacific Production	7,613,465	7,454,775	6,752,822	6,512,743	28,333,805	5,705,576	6,772,706	7,579,693	8,775,307	28,833,282
y/y Change						-25%	-9%	12%	35%	2%
Sequential Change		-2%	-9%	-4%		-12%	19%	12%	16%	
Latin American Production	907,923	1,048,268	1,087,710	715,895	3,759,796	748,400	927,247	983,454	1,014,643	3,673,744
y/y Change						-18%	-12%	-10%	42%	-2%
Sequential Change		15%	4%	-34%		5%	24%	6%	3%	

	<u>1Q10</u>	<u>2Q10</u>	<u>3Q10E</u>	<u>4Q10E</u>	<u>2010E</u>	<u>1Q11E</u>	<u>2Q11E</u>	<u>3Q11E</u>	<u>4Q11E</u>	<u>2011E</u>
North American Production	2,902,669	3,068,289	2,935,412	2,825,275	11,756,309	3,158,715	3,249,271	3,050,776	3,008,988	12,467,750
y/y Change	71%	73%	25%	3%	37%	9%	6%	4%	7%	6%
Sequential Change	5%	6%	-4%	-4%		12%	3%	-6%	-1%	
European Production	4,691,612	4,810,123	3,850,628	4,258,427	17,792,451	4,605,311	4,778,502	4,179,930	4,657,020	18,220,763
y/y Change	37%	13%	-6%	-6%	9%	-2%	-1%	9%	9%	2%
Sequential Change	4%	3%	-20%	11%		8%	4%	-13%	11%	
Asia-Pacific Production	9,177,485	8,547,183	7,890,704	8,119,540	33,734,912	9,073,222	9,083,034	8,702,446	9,116,123	35,974,825
y/y Change	61%	26%	4%	-7%	17%	-1%	6%	10%	12%	7%
Sequential Change	5%	-7%	-8%	3%		12%	0%	-4%	5%	
Latin American Production	914,504	1,046,166	1,092,328	1,076,094	4,129,092	1,130,449	1,142,672	1,152,848	1,146,894	4,572,863
y/y Change	22%	13%	11%	6%	12%	24%	9%	6%	7%	11%
Sequential Change	-10%	14%	4%	-1%		5%	1%	1%	-1%	

Source: Company Reports, AutoData, J.P. Morgan, Edmunds

August 2010 Sales, Inventories & Incentives

Company	August-10										
	Unit Sales (Days Adjusted)					Days Inventory			Incentives		
	Actual	Estimated	Relative	% YoY	% MoM	Aug-10	Jul-10	Aug-09	Aug-10	% YoY	% MoM
Ford Motor Co.	161,768	159,500	In-Line	-7.5%	2.6%	57	57	35	\$ 2,969	23.6%	-3.0%
Toyota Motor Sales U.S.A.	148,388	161,400	Worse	-31.4%	-5.3%	57	51	16	\$ 2,038	27.0%	0.8%
American Honda Motor Co. Inc.	108,729	116,300	Worse	-30.0%	4.4%	50	49	25	\$ 2,275	72.7%	2.0%
Chrysler LLC	99,611	98,100	Better	11.1%	15.3%	50	55	28	\$ 3,719	-23.4%	1.7%
Nissan Motor Corp. in U.S.A.	76,827	76,900	In-Line	-24.1%	0.8%	48	46	22	\$ 3,104	27.5%	-1.1%
Total Light Vehicle Sales	997,468	1,028,200	Worse	-17.8%	2.6%	51	50	28	\$ 2,778	9.0%	-2.6%
SAAR	11.46	11.61	Worse	-18.7%	-0.9%						
Selling Days	25	25									

Source: Company Reports, AutoData, J.P. Morgan, Edmunds

5-Year CDS Trend

Figure 1: Trend In 5-Year CDS - Key Credits (bid price used)

	8/31/05	8/31/06	8/31/07	8/29/08	8/31/09	12/31/09	3/31/10	6/30/10	8/30/10		Current vs. '06
ARM	303	393	442	810	961	706	545	752	668		274
AXL	233	423	360	1,562	1,105	705	555	805	712		290
F	548	646	745	1,838	972	665	483	716	575		-71
FMCC	413	323	537	1,417	624	441	305	491	394		72
ALLY	436	197	633	1,979	725	427	338	531	491		294
GT	353	379	298	453	466	421	490	654	611		232
TRW	240	140	315	540	623	419	404	524	437		298
Average	361	357	476	1,228	782	541	446	639	555		198

Source: J.P. Morgan, DataQuery, Bloomberg L.P.

YTD 2010 Automotive High Yield Issuance

Issue Date	Issuer	Security	Par Amount	Coupon	Maturity	Rating	Use of Proceeds
01/14/10	Ford Motor Credit (add-on)	Sr Nts	500.0	8.13%	01/15/20	B3/B-	General Corporate Purposes
02/09/10	GMAC	Sr Nts	2,000.0	8.30%	02/12/15	B3/B	General Corporate Purposes
02/26/10	ArvinMeritor Inc	Guar Nts	250.0	10.63%	03/15/18	Caa2/CCC-	Refinancing; Tender Offer
03/09/10	Sonic Automotive	Sr Sub Nts	210.0	9.00%	03/15/18	Caa1/B-	Refinancing
03/10/10	GMAC Inc	Guar Nts	1,500.0	8.00%	03/15/20	B3/B	General Corporate Purposes
03/23/10	GMAC (add-on)	Sr Nts	400.0	8.00%	03/15/20	B3/B	General Corporate Purposes
03/23/10	Lear Corp.	Sr Nts	350.0	8.13%	03/15/20	B1/BB+	Refinancing Bank Debt
03/23/10	Lear Corp.	Sr Nts	350.0	8.13%	03/15/20	B1/BB+	Refinancing Bank Debt
03/31/10	AutoNation Inc	Guar Nts	400.0	6.75%	04/15/18	Ba2/BB+	Refinancing; Tender Offer
04/06/10	Ford Motor Credit	Sr Nts	1,750.0	6.63%	08/15/17	Ba3/B-	General Corporate Purposes
04/26/10	Advance Auto Parts	Sr Nts	300.0	5.75%	05/01/20	Ba1/BBB-	General Corporate Purposes
04/29/10	Cooper Standard	Sr Nts	450.0	8.50%	05/01/18	B2/NR	Refinancing
05/27/10	Drivetime Auto & Accept	Sr Sec Nts	200.0	12.63%	06/15/17	B3/B	Refinancing
06/03/10	Tenneco	Term Loan B	150.0	L + 475	06/01/16	B3/B	Refinancing
06/09/10	AutoTrader.com	Term Loan B	300.0	L + 450	05/01/16	Ba3/BB+	General Corporate Purposes
07/22/10	Accuride Corp	Sr Sec Nts (1st)	310.0	9.50%	08/01/18	B2/B	Refinancing Bank Debt
07/28/10	Ford Motor Credit	Sr Nts	1,250.0	6.63%	08/15/17	Ba3/B-	General Corporate Purposes
07/29/10	Tenneco	Sr Nts	225.0	7.75%	08/15/18	B2/B	Refinancing; Tender Offer
08/09/10	Ally Financial	Sr Nts	1,750.0	7.50%	09/15/20	B3/B	General Corporate Purposes
08/10/10	GoodYear Tire & Rubber	Sr Nts	900.0	8.25%	08/15/20	B1/B+	Refinancing; Tender Offer

Source: Company reports and J.P. Morgan Estimates

Relative Value Table

Summary Levels	Market Levels				Total Return		Credit Stats		
	Price	YTW	OAS	5-Year CDS	MTD	YTD	Total Leverage	YTW/UOL	TEV/EBITDA
Automotive OEMs	\$ 97.8	7.6%	474	590	1.1%	15.3%	3.1x	2.5%	5.0x
Finance Companies	\$ 104.8	6.4%	495	454	1.0%	10.3%	NA	NA	NA
Suppliers	\$ 104.2	7.3%	544	365	1.3%	12.9%	2.7x	2.7%	6.7x
Tire Manufacturers	\$ 101.5	8.0%	581	400	1.2%	8.0%	2.1x	3.8%	3.2x
Automotive Dealers	\$ 98.9	7.5%	627		0.3%	5.8%	6.5x	1.1%	10.2x
Total Automotive	\$ 101.4	7.4%	544	452	1.0%	10.4%	3.6x	2.0%	6.3x
JPMorgan High Yield Index		8.5%	719		0.0%	8.1%			
Split BBB Index		6.0%	419		1.3%	9.1%			
BB Index		6.6%	515		0.6%	8.7%			
B Index		8.5%	727		0.1%	7.2%			
CCC Index		12.9%	1174		-1.8%	7.8%			

Source: Company reports and J.P. Morgan estimates.

Relative Value Table

JPMorgan Automotive Credit Research													Eric J. Selle, CFA (212) 270-9624								
Weekly Bond Data as of 8/31/2010																					
Issue Data				Bond and CDS Data									Total Return		Credit Fundamentals (LTM 6/30/10)						
Coupon	Type	Maturity	Rating	Amt (\$mm)	Price	Current Yield	YTW	OAS	5-YR CDS	Next Call Date	Next Call Price	MTD	YTD	EBITDA (\$MM)	EBITDA Margin	Interest Coverage	(EBITDA - Capex)/Interest	Total Leverage	Net Leverage	TEV/EBITDA	
AUTOMOTIVE OEMs																					
Overweight																					
Ford Motor Co. (F)																					
Overweight																					
L + 275	Term Loan	12/15/13	Ba1/BB	6,755	96.6	3.2%	4.1%							\$ 8,700	7.1%	3.8x	1.8x	3.1x	0.6x	5.0x	
7.45%	Notes	7/16/31	B2/B	1,794	97.8	7.6%	7.6%	474	590	NC	NC	1.1%	15.3%								
Automotive OEM Average					\$ 97.8	7.6%	7.6%	474	590			1.1%	15.3%	\$ 8,700	7.1%	3.8x	1.8x	3.1x	0.6x	5.0x	
FINANCE COMPANIES																					
Neutral																					
Ford Motor Credit Co. (F)																					
Overweight																					
7.25%	Notes	10/25/11	Ba3/B+	3,500	104.0	7.0%	3.3%	269	406	NC	NC	1.4%	7.8%								
7.00%	Notes	10/1/13	Ba3/B+	3,000	104.3	6.7%	5.3%	439		NC	NC	0.8%	9.0%								
8.00%	Notes	6/1/14	Ba3/B+	1,100	106.0	7.5%	6.0%	496		NC	NC	0.8%	8.4%								
8.70%	Notes	10/1/14	Ba3/B+	1,000	109.0	8.0%	6.0%	488		NC	NC	1.6%	9.7%								
12.00%	Notes	5/15/15	Ba3/B+	1,100	118.3	10.1%	7.2%	593		NC	NC	0.1%	8.6%								
8.00%	Notes	12/15/16	Ba3/B+	1,500	108.0	7.4%	6.3%	460		NC	NC	2.3%	13.6%								
8.13%	Notes	1/15/20	Ba3/B+	1,250	109.0	7.5%	6.7%	445		NC	NC	2.9%	16.7%								
Ally Financial Inc. (ALLY)																					
Neutral																					
6.88%	Notes	9/15/11	B3/B	1,102	102.1	6.7%	4.8%	454	502	NC	NC	0.2%	7.2%								
8.30%	Notes	2/12/15	B3/B	2,000	104.0	8.0%	7.1%	585		NC	NC	-0.5%	9.5%								
7.50%	Notes	4/21/15	B3/B	1,000	99.1	7.6%	7.6%	611		NC	NC										
8.00%	Notes	3/15/20	B3/B	1,900	102.5	7.8%	7.6%	523		NC	NC	0.0%	8.0%								
7.50%	Notes	9/15/20	B3/B	1,750	99.3	7.6%	7.6%	527		NC	NC										
8.00%	Notes	11/1/31	B3/B	1,995	97.0	8.2%	8.3%	540		NC	NC	1.5%	15.1%								
Finance Companies Average					\$ 104.8	7.7%	6.4%	495	454			1.0%	10.3%								
JPMorgan High Yield Index							8.5%	719				0.0%	8.1%								
Split BBB Index							6.0%	419				1.3%	9.1%								
BB Index							6.6%	515				0.6%	8.7%								
B Index							8.5%	727				0.1%	7.2%								
CCC Index							12.9%	1,174				-1.8%	7.8%								
10-Year Treasury							2.5%														
3 - Month LIBOR							0.3%														

Source: Company reports and J.P. Morgan estimates.

Relative Value Table

JPMorgan Automotive Credit Research												Eric J. Selle, CFA (212) 270-9624									
Weekly Bond Data as of 8/31/2010																					
Issue Data				Bond and CDS Data								Total Return		Credit Fundamentals (LTM 6/30/10)							
Coupon	Type	Maturity	Rating	Amt (\$mm)	Price	Current Yield	YTW	OAS	5-YR CDS	Next Call Date	Next Call Price	MTD	YTD	EBITDA (\$MM)	EBITDA Margin	Interest Coverage	(EBITDA - Capex)/Interest	Total Leverage	Net Leverage	TEV/EBITDA	
AUTOMOTIVE SUPPLIERS												Underweight									
Affinia Group, Inc (AFFGRP)																					
9.00%	Notes	11/30/14	B3/CCC+	267	102.3	8.8%	7.9%	688		10/4/10	105	1.2%	11.7%	\$ 140	7.8%	2.1x	1.7x	4.4x	3.9x	Private	
10.75%	Notes	8/15/16	B1/B+	225	110.1	9.8%	8.1%	651		8/15/12	108	-0.1%	8.2%								
American Axle & Manufacturing, Inc. (AXL)												Overweight									
9.25%	Notes	1/15/17	Ba2/B	425	105.8	8.7%	7.8%	615	725	1/15/14	105	-0.7%	10.6%	\$ 264	13.5%	3.0x	1.8x	3.8x	2.9x	5.2x	
5.25%	Notes	2/11/14	B3/CCC	250	88.0	6.0%	9.2%	821		NC	NC	-1.2%	6.1%								
7.88%	Notes	3/1/17	B3/CCC	300	92.0	8.6%	9.4%	766		3/1/12	104	0.1%	15.1%								
ArvinMeritor, Inc. (ARM)												Underweight									
8.13%	Notes	9/15/15	Caa1/CCC	252	99.3	8.2%	8.2%	677	677	NC	NC	0.4%	10.3%	\$ 211	4.6%	2.1x	1.4x	4.8x	3.5x	9.3x	
10.63%	Notes	3/15/18	Caa1/CCC	250	108.0	9.8%	8.7%	690		3/15/14	105	0.3%	16.1%								
BorgWarner, Inc. (BWA)												Not Rated									
7.13%	Notes	2/15/29	Ba1/BBB	121	118.3	6.0%	5.5%	260	118	NC	NC	6.0%	34.8%	\$ 583	11.8%	8.9x	6.0x	1.7x	1.3x	9.9x	
8.00%	Notes	10/1/19	Ba1/BBB	134	106.3	7.5%	7.1%	488		NC	NC	4.0%	22.3%								
Cummins, Inc. (CMI)												Neutral									
7.13%	Notes	3/1/28	Baa2/BBB	250	112.1	6.4%	6.0%	325	67	NC	NC	3.8%	20.2%	\$ 1,223	10.5%	34.0x	26.7x	0.6x	-0.4x	11.7x	
Dana Corp. (DAN)												Neutral									
L + 425	Term Loan	1/31/15	B1/BB-	974	98.0	4.6%	5.0%			NC	NC			\$ 444	7.6%	3.9x	3.3x	2.1x	-0.3x	3.0x	
Federal Mogul												Underweight									
L + 193.75	Term Loan	12/27/14	Ba3/B+	1,911	91.5	2.4%	4.2%			NC	NC			\$ 562	9.6%	4.4x	2.9x	5.3x	3.4x	6.1x	
L + 193.75	Term Loan	12/27/15	Ba3/B+	975	91.5	2.4%	3.8%			NC	NC										
Johnson Controls, Inc. (JCI)												Underweight									
5.50%	Notes	1/15/16	Baa2/BBB	800	112.8	4.9%	2.9%	149	117	NC	NC	1.8%	14.3%	\$ 2,183	6.6%	11.6x	8.1x	1.5x	1.1x	9.3x	
6.00%	Notes	1/15/36	Baa2/BBB	400	112.0	5.4%	5.1%	198		NC	NC	6.5%	30.8%								
Lear Corp. (LEA)												Neutral									
7.88%	Notes	3/15/2018	B1/BB-	350	103.5	7.6%	7.1%	525	405	3/15/14	104	0.1%	7.7%	\$ 784	7.0%	10.3x	8.6x	0.9x	-0.9x	3.8x	
8.13%	Notes	3/15/2020	B1/BB-	350	104.0	7.8%	7.4%	520		3/15/15	104	0.4%	8.2%								
Tenneco Automotive, Inc. (TEN)												Overweight									
L + 475	Term Loan	6/3/16	Ba2/BB-	150	102.3	4.9%	4.7%			NC	NC			\$ 478	8.9%	3.6x	2.7x	2.6x	2.3x	5.4x	
8.125%	Notes	11/15/15	B2/B	250	103.8	7.8%	6.6%	532		11/15/11	104	0.7%	7.9%								
7.750%	Notes	8/15/18	B2/B	225	101.3	7.7%	7.4%	531		8/15/14	104										
8.625%	Notes	11/15/14	Caa1/CCC+	500	102.5	8.4%	7.1%	490		NC	NC	0.2%	7.2%								
TRW Automotive Holdings Corp. (TRW)												Neutral									
L + 500	Term Loan	3/16/14	Ba2/BB-		100.1	5.3%	5.3%			NC	NC			\$ 1,540	11.2%	8.2x	6.9x	1.3x	0.8x	3.5x	
7.00%	Notes	3/15/14	B2/BB	482	102.0	6.9%	6.2%	517	444	NC	NC	1.5%	9.6%								
7.25%	Notes	3/15/17	B2/BB	562	102.0	7.1%	6.8%	496		NC	NC	2.3%	10.1%								
8.88%	Notes	12/1/17	B2/BB	250	107.0	8.3%	7.1%	536		12/1/13	104	1.0%	8.3%								
Automotive Suppliers Average				\$ 104.2		7.7%	7.3%	544	365			1.3%	12.9%	\$ 717	9.1%	7.9x	6.0x	2.7x	1.7x	6.7x	
JPMorgan High Yield Index							8.5%	719			0.0%	8.1%									
Split BBB Index							6.0%	419			1.3%	9.1%									
BB Index							6.6%	515			0.6%	8.7%									
B Index							8.5%	727			0.1%	7.2%									
CCC Index							12.9%	1,174			-1.8%	7.8%									
10-Year Treasury							2.5%														
3 - Month LIBOR							0.3%														

Source: Company reports and J.P. Morgan estimates.

Relative Value Table

JPMorgan Automotive Credit Research												Eric J. Selle, CFA (212) 270-9624								
Weekly Bond Data as of 8/31/2010																				
Issue Data				Bond and CDS Data								Total Return		Credit Fundamentals (LTM 6/30/10)						
Coupon	Type	Maturity	Rating	Amt (\$mm)	Price	Current Yield	YTW	OAS	5-YR CDS	Next Call Date	Next Call Price	MTD	YTD	EBITDA (\$MM)	EBITDA Margin	Interest Coverage	(EBITDA - Capex)/Interest	Total Leverage	Net Leverage	TEV/EBITDA
TIRE MANUFACTURERS																				
Overweight																				
Cooper Tire & Rubber Co. (CTBUS)												Overweight								
8.00%	Notes	12/15/19	B3/BB-	174	100.5	8.0%	7.9%	572	400	NC	NC	0.1%	10.1%	\$ 371	12.5%	8.6x	6.7x	1.3x	0.4x	3.1x
7.63%	Notes	3/15/27	B3/BB-	117	94.0	8.1%	8.3%	567		NC	NC	1.2%	11.4%							
Goodyear Tire & Rubber Co. (GT)												Neutral								
L + 175	Term Loan	4/30/14	Ba1/BB	1,200	93.5	2.2%	3.8%			NC	NC			\$ 1,486	8.4%	4.7x	2.3x	2.9x	1.8x	3.3x
10.50%	Notes	5/15/16	B1/B+	1,000	110.0	9.5%	7.8%	626		5/15/12	108	-0.1%	6.6%							
8.25%	Notes	8/15/20	B1/B+	1,000	101.5	8.1%	7.9%	560		NC	NC	3.7%	3.7%							
Tire Manufacturer Average				\$ 101.5	8.4%	8.0%	581	400				1.2%	8.0%	\$ 928	10.5%	6.6x	4.5x	2.1x	1.1x	3.2x
AUTOMOTIVE DEALERS																				
Overweight																				
Asbury Automotive Group, Inc. (ABG)												Overweight								
8.00%	Notes	3/15/14	Caa1/B-	179	99.8	8.0%	7.8%	662		10/4/10	103	0.6%	7.0%	\$ 141	3.6%	2.5x	2.3x	6.2x	6.0x	8.8x
7.63%	Notes	3/15/17	Caa1/B-	143	95.0	8.0%	8.5%	673		3/15/12	104	0.9%	6.5%							
AutoNation, Inc. (AN)												Neutral								
6.75%	Notes	4/15/18	Ba2/BB+	400	100.6	6.7%	6.6%	468		NC	NC	0.2%	4.6%	\$ 515	4.4%	6.4x	5.4x	5.5x	5.3x	11.7x
Penske Auto Group, Inc. (PAG)												Overweight								
7.75%	Notes	12/15/16	Caa1/B-	375	95.8	8.1%	8.5%	677		12/15/11	104	-0.1%	4.0%	\$ 286	2.8%	2.9x	2.1x	7.6x	7.6x	11.4x
Sonic Automotive, Inc. (SAH)												Overweight								
9.00%	Notes	3/15/18	Caa1/B-	210	101.6	8.9%	8.5%	656		3/15/14	105	-0.3%	6.8%	\$ 208	3.2%	2.2x	1.8x	6.8x	6.7x	8.9x
5.00%	Notes	10/1/29		173	100.6	5.0%	4.8%			10/1/14	100									
Automotive Dealer Average				\$ 98.9	7.4%	7.5%	627					0.3%	5.8%	\$ 288	3.5%	3.5x	2.9x	6.5x	6.4x	10.2x
JPMorgan High Yield Index							8.5%	719			0.0%		8.1%							
Split BBB Index							6.0%	419			1.3%		9.1%							
BB Index							6.6%	515			0.6%		8.7%							
B Index							8.5%	727			0.1%		7.2%							
CCC Index							12.9%	1,174			-1.8%		7.8%							
10-Year Treasury							2.5%													
3 - Month LIBOR							0.3%													

Source: Company reports and J.P. Morgan estimates.

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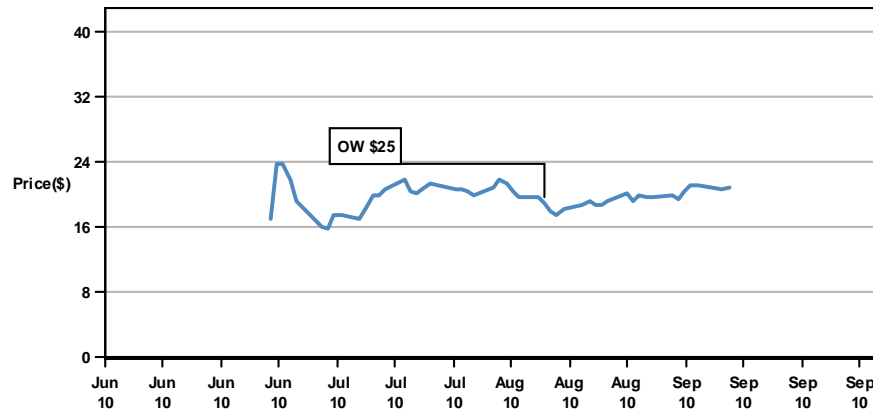
Companies Recommended in This Report (all prices in this report as of market close on 08 September 2010)

Tesla Motors (TSLA/\$20.90/Overweight)

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Tesla Motors (TSLA) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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