Global Economic Outlook and Strategy

February 2014

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With thanks to Jan Maguire

Next issue 26 March 2014

- Recent events have taken a bite out of this year's prospective pickup in global growth. We now expect global growth to accelerate from 2.5% in 2013 (at current exchange rates) to about 3.1% in 2014, with a 0.2% downgrade for this year's forecast from last month. We are again trimming emerging market (EM) growth forecasts, with downgrades this month for Turkey, S Africa, Argentina, Brazil and (for 2015 onwards) for India. Many EM countries face a squeeze between modest world trade growth, domestic imbalances, sticky inflation, and worries over the sustainability of China's credit-driven growth model. Risks to our EM growth forecasts probably remain to the downside.

- Disappointing EM growth could spill over to advanced economies (AEs) through various channels, including trade, banking and FDI links. Euro area growth is likely to remain modest. We are cutting about ½% off our 2014 growth forecasts for the US and Japan this month. In Japan's case, EM-related headwinds increase the likelihood that growth will undershoot consensus forecasts in 2014-15 amidst heavy fiscal drag. For the US, this month's revision reflects recent weather-related weakness — likely to prove temporary — and we look for US growth to rebound to about 3½% QoQ SAAR in Q2.

- Despite disappointing EM growth trends, a range of EM central banks are likely to tighten policy in 2014-15, in response to a mix of inflation worries, FX weakness and domestic imbalances — thereby adding to downside EM growth risks. By contrast, the ECB and BoJ are both likely to loosen further this year. With inflation markedly undershooting its forecasts, we expect the ECB to cut the refi rate further by 15bp (from 0.25% to 0.1%) at the upcoming March meeting and to cut the deposit rate slightly below zero around midyear. However, we do not expect these actions will significantly improve financial conditions or convincingly lift the euro area away from deflation risks. With low nominal GDP, public debt ratios are likely to continue to rise in Italy, Spain, Portugal and Greece in 2014-16. We expect the BoJ to ease around midyear, as evidence emerges of this year's pay round and the effects of fiscal drag. Solid growth trends and rising capacity use are likely to prompt the BoE to hike rates late this year, with an extended Fed tightening cycle beginning in 2015.

Figure 1. Currency and Interest Rate Forecasts, as of 26 February 2014

	26 Feb 2014	1Q 14F	2Q 14F	3Q 14F	4Q 14F	1Q 15F	2Q 15F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-Yr. Treasuries (Period Ave.)	2.74	2.70	2.80	2.95	3.10	3.30	3.40
Euro Area: US$/€	1.37	1.37	1.38	1.39	1.40	1.40	1.40
Euro Repo Rate	0.25	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. Bunds (Period Ave.)	1.67	1.70	1.65	1.70	1.80	1.90	1.90
Japan: Yen/US$	102	105	106	107	108	109	111
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.59	0.63	0.55	0.70	0.85	0.95	1.05

F: Forecast. Note: All forecasts are for end of period, unless specified. Source: Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 2. Forecast Highlights and Changes

■ Global	We are trimming 0.2% from this year's global growth forecast, with further downgrades to EM growth and sizeable mark downs to our US and Japan forecasts. We view the recent US dip as essentially temporary, whereas Japan's growth is likely to underperform consensus in 2014-15 amidst heavy fiscal drag. Risks for EM growth remain to the downside.
■ United States	Following the second-half surge in demand, a harsh winter has disrupted activity. With fiscal drag fading and Fed policy still focused on anchoring rates, ample resource slack should allow for above-average growth over the forecast horizon. Rate hikes are not expected until later in 2015.
■ Euro Area	We leave our 2014-15 GDP forecasts unchanged, expecting the modest recovery to continue. Financial market fragmentation is receding and investors are showing steady appetite for periphery government debt, ignoring the German constitutional court's decision to refer the OMT to the European Court of Justice. We believe that the ECB will cut its refi rate to 0.1% in March to counteract risks of a very subdued inflation trajectory extending into 2016.
■ China	While economic data suffer from holiday-related distortions at the beginning of the year, information available so far indicates further softening of economic activity, although the downside risk appears to be mitigated by strength of external demand and steady growth of credit. The current level of output growth may not trigger policy loosening yet.
■ Japan	The economy already appears to be undershooting the Bank of Japan's relatively bullish scenario. We continue to expect policymakers to implement the additional easing measure, centered on increased purchases of JGBs, in June or July after having confirmed the negative impact from the tax hike in April.
■ United Kingdom	The unusually heavy rainfall of recent weeks does not seem to be seriously denting growth. With solid growth and rising capacity use, we expect the MPC will start to hike rates around Q4 this year.
■ Canada	We slightly downgrade our 2014 GDP forecast on greater fiscal drag, bad weather-effects and softer EM growth. But the inflation outlook has improved and financial conditions remain buoyant. Hence we continue to expect no change in monetary policy.
■ Australia	We continue to see a period of stability in interest rates from the RBA extending through until early next year, by when demand should be picking up more strongly.
■ Emerging Asia (ex China)	The region withstood the recent EM sell off relatively well. Growth forecasts are largely unchanged but sentiment improved markedly in Indonesia following the narrowing of the current account deficit. Export performance is mixed — weak among the NIEs but relatively strong in others (Malaysia, Philippines). Lunar new year and US winter blues could keep policymakers on hold for now, with Thailand remaining a growth underperformer amid protracted political turmoil.
■ CEEMEA	Now that the market has 'won' interest rate hikes from Turkey and South Africa, it is likely that these two economies will follow India and Indonesia towards a reduction in their current account deficits. Turkey, having hiked more aggressively, promises a more rapid adjustment process than South Africa. Meanwhile, pressure on currencies where current account deficits are not a threat — Russia, eg — is unlikely to disappear. There, the concern is about the absence of growth rather than the presence of a deficit.
■ Lat Am	Recent activity prints have come softer than expected both in Brazil and Mexico. Thus, we have reduced our forecast for 2014 GDP growth in Brazil to 1.3%, although we continue to see activity growing 3.8% this year in Mexico. The CBs of Brazil and Mexico are likely to keep monetary policy on hold until 2015, after an expected 25bps hike in Brazil in the next meeting. In Argentina and Venezuela, growth continues to trend down while inflation escalates. The scarcity of foreign currency has been worsening in both countries.

Source: Citi Research

Figure 3. Selected Countries — Industrial Production Forecasts (Pct.), 2013-15F

	2013F	2014F	2015F
World	2.2%	4.0%	3.9%
United States	2.6	3.2	4.3
Japan	-0.4	4.3	1.3
Euro Area	-0.7	2.3	2.0
United Kingdom	-0.1	1.5	0.8
Canada	0.9	1.2	1.8
China	9.7	9.2	8.6
India	0.7	3.9	5.3
Korea	-0.1	2.9	4.2
Brazil	1.1	1.5	2.3

Source: Citi Research

Is the EM Slowdown Spreading to DM?

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This year's pick up in global growth is likely to be less solid than we previously expected, with a 0.2% downgrade to our 2014 forecast

We argued last month that global growth is likely to accelerate this year. That remains our view, but recent events have taken a bite out of that prospective pickup. We now expect global growth to accelerate from 2.5% in 2013 (at current exchange rates) to about 3.1% this year and 3.4% in 2015, with a 0.2% downgrade for this year. We are again trimming growth forecasts for a range of EMs, with downgrades to the 2014 outlook this month for Turkey, S Africa, Argentina and Brazil, and notable downgrades to the medium-term outlook for India (cutting 0.5-0.6% off average YoY GDP growth in 2015-18). This is the third consecutive downgrade (each one tenth) to our 2014 EM growth forecast and in all we have downgraded our 2014 EM growth forecast by 1½% since mid-2011. But, in contrast to the general recent pattern of upgrades among advanced economies, this month we mark down our 2014 growth forecasts by about ½% for both the US and Japan.

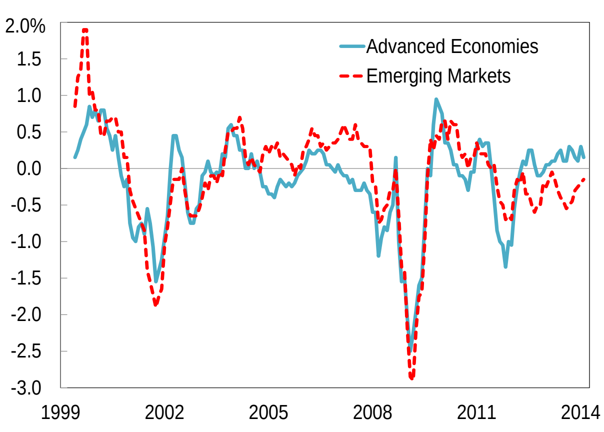
Many EMs face a crunch between domestic imbalances, limited prospects for export improvement and worries over the sustainability of China's credit-led growth model

Details of the worsening EM outlook differ from country to country, but common themes are the deterioration in EM balance sheets and current accounts over recent years, the relatively low spillover from higher AE growth to a recovery in world trade, sticky inflation, and worries over the sustainability of China's credit-driven growth model. The prospect of continued Fed tapering and an eventual turn in the AE rate cycle may be a contributing factor to EM strains, but we note that the Fed is still currently expanding its balance sheet, while the ECB and BoJ are both likely to loosen further.

Despite the recovery in AE growth, world trade growth remained sluggish on average in 2013

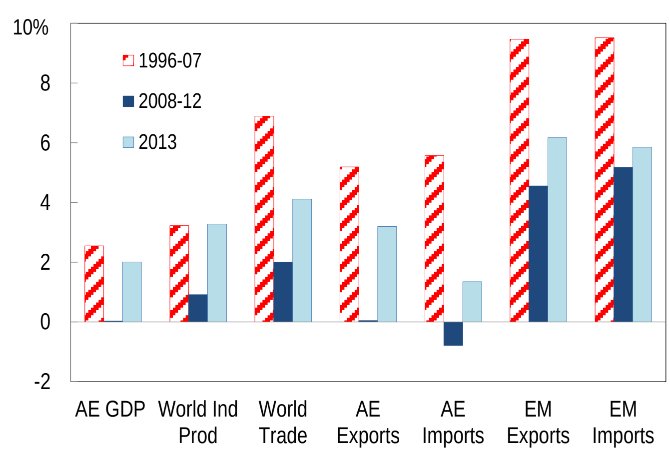
The recovery in AE growth is still not generating the widely-hoped-for return to export-led growth in EMs. Over the last four quarters, GDP growth in the main four AEs[1] has picked up to an average of 2.0% QoQ SAAR, only a little below the 1996-07 average (2.5% QoQ SAAR). Global industrial production growth has picked up to an average of 3.3% QoQ SAAR, marginally above the 1996-07 average (3.2% QoQ SAAR). In turn, CPB data show that world trade growth (goods only) has picked up to an average of 4.1% QoQ SAAR in the last four quarters, twice the pace of 2008-12 (2.0% QoQ SAAR) — but well below the precrisis trend (average for 1996-07 was 6.9% QoQ SAAR). So a return to something like the pre-crisis trend in output growth has left world trade growth running at less than two-third the precrisis trend. With less-import intensive AE growth, the boost to export-oriented EM countries probably will continue to be relatively disappointing.

Figure 4. Global — Six-Month Sum of Revisions to Citi Forecasts for Real GDP Growth in Current and Next Year, 1999-2014



Source: Citi Research

Figure 5. Global — World Trade and Output Growth, QoQ SAAR, 1996-2013



Sources: OECD, DataStream and Citi Research

[1] The weighted average of growth in the US, euro area, Japan and UK.

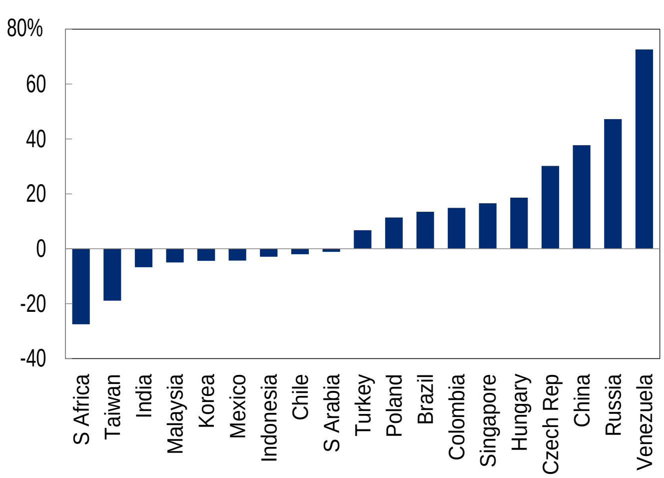
China's growth continues to be credit-led, with downside risks to growth if the authorities eventually seek to seriously rein in the credit boom

China's authorities continue to gradually tighten credit availability, and stress that monetary policy "*should focus on supporting the structural adjustment and promoting reform and transformation of the growth pattern*"[2]. The one-year repo rate is a little above 6% now, versus 4% a year ago. However, credit growth remains extraordinarily strong and China is still following the credit-led growth model of recent years. The flow of total social financing (TSF) hit RMB2.6tn in January, a record high, and the stock of TSF has risen by 17-18% YoY over the last year, nearly twice the growth of nominal GDP (10.0% YoY in Q4). As a result, China's private debt/GDP ratio (ie the gross unconsolidated debt of the household and non-financial corporate sectors) is probably still rising rapidly, having already surged from 120% in Q1-08 to 182% in Q2-13 (using BIS data). In the nearterm, such rapid credit growth probably will help keep China's real GDP growth at 7-7½% this year, but if (as seems likely eventually) worries over worsening credit quality and inefficient use of resources prompt the authorities to genuinely rein in the credit boom, then the economy probably will slow markedly further unless (surprisingly) the reform agenda opens up major new growth drivers.

We doubt that EM FX rates have yet weakened enough to produce a significant export boost, and rising EM interest rates will further cap GDP growth

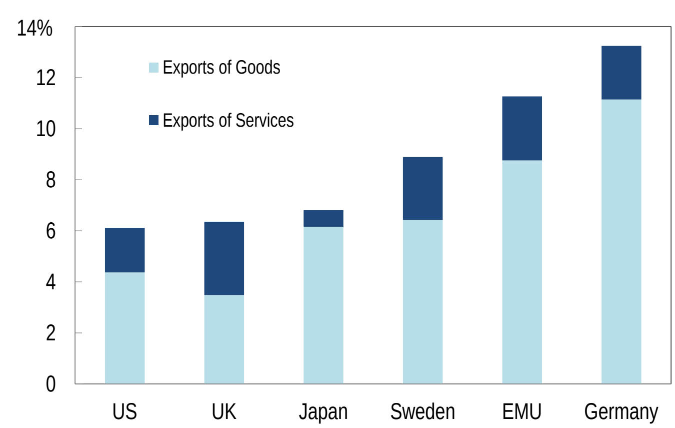
These factors imply that many export-oriented EM countries are unlikely to be able to improve their current account balances via faster export growth. And, with capital flows moving back to AEs (reflecting better growth prospect and Fed tapering), we expect further EM FX weakness. Eventually, sustained FX depreciation among EMs probably will revive their exports, but we question whether FX rates have yet adjusted sufficiently to achieve this. In Sep-12, before the recent EM FX depreciation, the unweighted average real exchange rate across 24 major EM countries (deflated by consumer prices) was 10% above the 1999-07 average and the highest since 1997. Even now, this measure is 5% above the 1999-07 average, with substantially greater overvaluation in some cases (eg Hungary, Czech Republic, China, Russia, Venezuela). Moreover, in the nearterm, EM rate hikes — in some cases in an attempt to limit FX depreciation and in others in response to inflation pressures — probably will further cap EM growth. With this backdrop, we suspect that growth risks for EMs overall remain firmly to the downside even relative to our falling forecasts, both for this year and coming years.

Figure 6. Selected Countries — Deviation of Real Exchange Rates (CPI-based) from 1999-2007 Averages, Jan 2014



Sources: BIS and Citi Research

Figure 7. Selected Countries — Exports of Goods and Services to Emerging Markets as Pct GDP, 2012



Note: We use the IMF definition of emerging markets. Data for services exports from the US and Japan are for 2011. Sources: IMF, Eurostat and Citi Research

[2] Source Monetary Policy Report, November 2013, PBOC.

In theory, EM links could hit AE growth through various trade, banking and FDI channels

In theory, disappointing EM growth could hit advanced economies through several channels. Exports of goods and services to EM (using the IMF's definition of EM) directly account for about 6-6½% of GDP in the UK and US, close to 7% of GDP in Japan and over 11% of GDP for the euro area (and above 13% of GDP in Germany). Some countries may also have sizable indirect EM exposure via third countries. Moreover, banking sector exposure to EMs (ultimate risk basis, using BIS data) is 4.6% of annual GDP in the US, 7.3% of GDP for Japan, 8.8% for Germany, 17.0% for France and 38% of GDP for the UK (with high exposure to Asia and the Middle East). Among individual EMU countries, the exposure of Spanish banks to EM equals 41% of annual GDP (especially to Latin America) and that of Austrian banks is 58% of GDP (especially to Eastern Europe). In addition, some countries have large FDI links with emerging markets, notably the UK. Against these potential headwinds, the EM slowdown also is helping to cap AE inflation, especially through commodities and traded goods, and this could boost consumers' real incomes.

Disappointing EM growth adds to the likelihood that Japan's growth will undershoot official forecasts, prompting further BoJ easing around midyear

These EM-related headwinds are likely to contribute to Japan's underperformance, along with heavy fiscal drag. We are cutting our 2014 growth forecasts to 1.2% from 1.6% last month. The government's current plans imply that the structural fiscal stance will tighten by 1.7% of GDP in FY 2014 and by a further 1.0% of GDP in FY 2015. Last year's monetary easing has yielded only modest underlying momentum in the economy so far. In particular, the boost to exports from yen depreciation has been partly offset by weak demand in Asia. In the last two quarters, real and nominal GDP growth was only about 1% QoQ SAAR. We look for the BoJ to ease further in coming months. However, given the BoJ's relative optimism over the economic outlook and the likelihood that Q1 growth will be lifted by advanced purchases, we expect that further BoJ action will only occur around midyear, once evidence of 2014 wage trends and the consumption tax hike impact come through[3].

The downgrade to our 2014 US growth forecast chiefly reflects weather-related effects — probably temporary — in Q1…

By contrast, this month's downgrade to our US forecast reflects domestic factors rather than EM effects. In the US, we have cut our Q1 growth forecast to only about 1% QoQ SAAR from 2.4% last month, reflecting weather-related delays and disruptions plus the reversal of prior stockbuilding[4]. Housing is likely to be especially vulnerable to weather extremes, while more costly energy consumption has drained about $20bn from consumers' budgets in Q1. We regard this weakness as temporary and look for GDP growth to rebound to about 3½% QoQ SAAR in Q2 (unchanged forecast from last month). Financial conditions are very supportive, fiscal policy is roughly neutral this year, private sector balance sheets have improved markedly and trends in job growth remain fairly solid. With the lower Q1 figure, we have marked down our 2014 US growth forecast (calendar year) to 2.6% from 3.1% last month. But, given the unusual (and probably temporary) Q1 dip, we continue to look for further Fed tapering this year with an extended Fed tightening cycle starting in 2015.

…but so far growth is holding up in the most EM-oriented AEs, notably Germany and Switzerland

The European economies have relatively high trade and banking sector exposure to EM, and EM disappointment reinforces the likelihood that euro area growth will remain modest. However, so far, business surveys are holding up, especially for Germany and Switzerland, which have very high EM trade exposure. Financial market contagion from EMs to AEs also seems limited so far. Nevertheless, we shall keep an eye on this issue, especially given the high EM weight in global growth and downside EM risks.

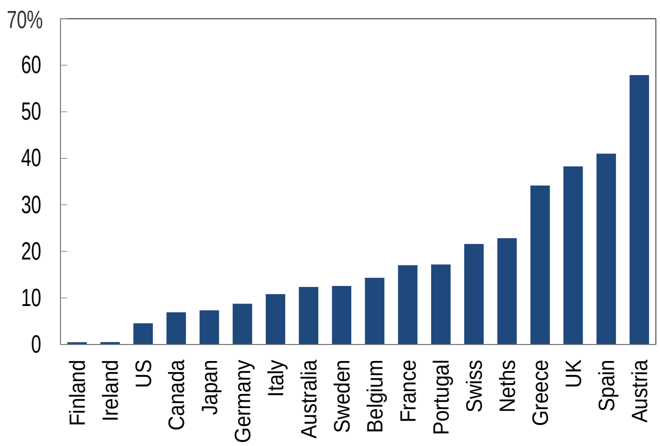
[3] See "*Rush demand and the ensuing drop look likely to be larger than expected*", Naoki Iizuka and Kiichi Murashima, 25 February 2014, Citi.

[4] See "*Room to Grow*", US Economics Weekly, Robert DiClemente, Citi, 21 February 2014.

The euro area remains on the edge of deflation…

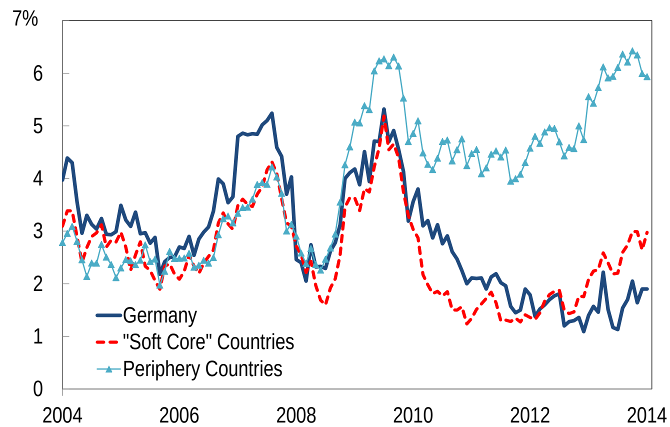
Even so, the euro area economy continues to skirt on the edge of deflation risk. CPI inflation with stable tax rates was just 0.6% YoY in January, down from 1.2% YoY at mid-13 and 0.9% at Sep-13. Within that, inflation (at constant tax rates) exceeds 1% YoY in Germany, but is below 0.5% YoY in Italy, Spain, France and the Netherlands (four of the biggest five economies). With ample slack, plus the disinflationary effects of recent FX appreciation and EM slowdown, we are cutting our euro area inflation forecasts to 0.7% YoY for both 2014 and 2015, down by 0.2% and 0.1% respectively from last month. Our forecasts are far below the midpoint of the ECB's Dec-13 forecasts (1.1% and 1.3% respectively). Our base case does not envisage a sustained period of outright deflation, but the euro area potentially is just one major adverse shock away from deflation in coming years[5].

Figure 8. Selected Countries — Banking Sector Exposure to Emerging Markets, as Pct of Annual GDP, Q3-2013



Note: We use the BIS definition of emerging markets. Banks' exposure is reported in USD terms and compared with the four-quarter average of nominal GDP in USD terms. Sources: IMF, Eurostat and Citi Research

Figure 9. Euro Area — Real Lending Rates on Business Loans Up to €1m (Over One Year Maturity), 2004-14



Note: Periphery is the average for Greece, Portugal, Italy, Spain and Ireland. Soft core is the average for France, Netherlands and Belgium. Converted into real terms using CPI at constant tax rates. Sources: ECB, Eurostat and Citi Research

…and such low inflation rates will make it harder for the periphery to return to fiscal sustainability

Moreover, deflation is likely for Italy, Spain, Portugal and Greece, and a risk for Ireland. To be sure, very low (or negative) inflation may help support the real spending power of people on fixed incomes or facing wage freezes. However, very low (or negative) inflation combined with relatively high bank lending rates mean that real interest rates in periphery countries are extraordinarily high, and creeping up in the soft-core. Moreover, low or negative inflation is likely to be reflected in weak nominal GDP growth, capping tax revenues and boosting public debt/GDP ratios via the denominator effect. We expect that general government gross debt/GDP ratios will rise further during 2014-16 in Italy, Spain and Portugal.

We expect the ECB to cut the refi rate further at the March meeting

We expect the ECB will cut the refi rate by 15 bp at the March meeting (from 0.25% to just 0.1%), citing its updated (and probably lower) inflation forecasts out to 2016. We still look for a modest cut in the deposit rate to -0.1% around midyear. However, such action (or schemes such as modest asset purchases, or ceasing the sterilization of SMP transactions) probably will have only a modest effect on overall financial conditions. We do not expect the ECB will implement major QE unless it concludes that inflation will stay very low (probably below 1%) and slack will remain ample even 2-3 years ahead.

[5] See "*The Euro Area Now and Japan Then: Separated by One Large Shock*", Ebrahim Rahbari, Euro Economics Weekly. 31 January 2014, Citi.

Figure 10. Selected Countries — Economic Forecast Overview (Percent), 2013-2018F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2013F	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Global	2.5	3.1	3.4	3.6	3.5	3.4	2.6	3.0	3.1	3.4	3.4	3.4	2.22	2.39	2.66	3.09	3.55	3.79
Based on PPP weights	*2.9*	*3.5*	*3.8*	*4.0*	*4.0*	*3.9*	*3.1*	*3.4*	*3.6*	*3.9*	*3.9*	*3.9*	*2.79*	*3.03*	*3.37*	*3.76*	*4.15*	*4.22*
Industrial Countries	1.2	2.0	2.3	2.4	2.1	1.9	1.3	1.6	1.6	1.5	1.4	1.6	0.46	0.36	0.51	1.06	1.70	2.42
United States	1.9	2.6	3.1	3.2	2.7	2.2	1.1	1.5	1.7	2.2	2.3	2.2	0.25	0.25	0.40	1.50	2.70	3.80
Japan	1.6	1.2	1.0	1.2	1.2	1.0	0.4	2.8	1.6	1.6	0.7	1.0	0.10	0.10	0.10	0.10	0.10	0.50
Euro Area	-0.4	1.1	1.3	1.5	1.6	1.6	1.4	0.7	0.7	1.0	1.2	1.5	0.50	0.13	0.10	0.11	0.42	0.92
Canada	1.8	2.3	2.7	2.7	2.6	2.4	0.9	1.7	1.8	2.0	2.0	2.0	1.00	1.00	1.19	2.13	2.50	2.75
Australia	2.4	2.9	2.8	2.9	3.0	3.2	2.4	3.2	2.1	2.5	2.4	2.4	2.69	2.50	3.44	4.44	4.50	4.75
New Zealand	2.7	3.2	2.7	2.4	2.6	2.7	1.1	2.1	2.2	2.2	2.2	2.4	2.50	3.31	4.31	4.56	4.75	5.00
Germany	0.5	2.0	2.1	2.0	1.8	1.6	1.5	1.5	1.9	1.9	1.8	1.9						
France	0.3	0.9	1.1	1.5	1.7	1.8	1.0	1.0	1.2	1.4	1.3	1.5						
Italy	-1.9	0.3	0.3	0.6	0.6	0.7	1.3	0.3	-0.3	0.4	1.1	1.4						
Spain	-1.2	0.9	1.1	1.5	1.4	1.5	1.5	-0.1	0.0	0.1	0.5	0.9						
Greece	-3.7	-1.0	0.4	0.9	1.4	1.4	-0.9	-2.3	-2.1	-1.3	-0.3	0.9						
Ireland	0.1	2.2	2.3	2.6	2.7	2.9	0.7	0.8	1.0	1.1	1.6	1.7						
Portugal	-1.4	1.5	1.2	1.1	1.2	1.3	0.4	-0.6	-0.9	-0.1	0.7	1.0						
Netherlands	-0.8	1.0	0.9	1.2	1.6	1.9	2.6	0.8	1.3	1.4	1.5	1.8						
Belgium	0.2	1.2	1.3	1.4	1.9	2.1	1.1	0.9	1.0	1.1	1.6	2.0						
Denmark	0.4	1.2	1.5	1.8	1.7	1.9	0.8	1.5	1.7	1.8	1.9	2.0	0.20	0.20	0.25	0.47	0.78	1.00
Norway	2.1	2.2	2.4	2.7	2.9	2.8	2.1	2.0	2.1	2.1	2.3	2.5	1.50	1.50	1.71	2.08	2.74	3.33
Sweden	0.9	2.3	2.7	2.8	2.9	2.7	0.0	0.5	1.8	2.4	2.3	2.0	0.99	0.75	0.98	1.42	2.18	2.80
Switzerland	2.0	2.0	2.0	2.2	2.0	2.0	-0.2	-0.2	0.9	1.1	1.2	1.2	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	1.9	3.3	3.2	2.7	2.2	2.3	2.6	1.6	1.9	2.1	2.1	2.0	0.50	0.54	1.58	2.00	2.21	2.71
Emerging Markets	4.5	4.7	5.0	5.3	5.4	5.3	4.7	5.0	5.4	5.1	5.1	4.9	4.99	5.46	5.86	6.10	6.22	5.72
China	7.7	7.3	7.0	7.5	7.3	7.0	2.6	3.2	3.7	3.8	4.0	3.8	3.00	3.03	3.63	3.88	4.25	4.50
Taiwan	2.1	3.2	3.8	4.2	4.5	4.5	0.8	1.3	1.9	1.8	1.8	1.8	1.88	1.88	2.19	2.63	3.13	3.63
India	4.9	5.6	6.2	6.6	6.9	7.0	9.6	8.3	7.5	7.0	6.5	6.5	7.75	8.00	8.00	7.50	7.00	7.00
Indonesia	5.8	5.3	5.5	5.7	5.9	5.7	6.4	6.5	5.7	5.4	5.3	5.5	4.65	6.00	6.44	6.25	6.00	6.00
Korea	2.8	3.7	3.9	4.0	3.6	3.8	1.3	2.1	3.1	3.1	3.0	2.9	2.56	2.50	3.13	3.75	4.13	4.25
Czech Republic	-1.1	1.9	2.4	2.4	2.7	3.1	1.4	1.3	2.3	1.6	2.0	2.0	0.05	0.05	0.05	0.55	1.54	2.54
Hungary	1.1	1.9	1.5	1.4	1.6	2.0	1.7	0.8	2.9	3.0	2.7	2.1	4.38	2.76	3.98	4.00	4.00	4.00
Poland	1.6	3.4	3.6	3.6	3.5	3.2	2.6	1.5	2.8	2.7	2.5	2.5	2.95	2.63	3.67	4.21	4.35	4.00
Romania	3.4	3.0	3.3	3.5	3.6	3.6	4.0	2.4	3.4	2.6	2.5	2.5	4.69	3.50	4.69	5.00	5.00	5.00
Russia	1.3	2.6	2.7	2.9	3.0	3.0	6.8	5.7	4.9	4.7	4.5	4.2	8.25	8.25	8.02	7.58	7.10	6.88
Turkey	4.0	2.3	3.5	3.9	4.1	4.1	7.5	7.7	7.4	6.8	6.5	6.1	6.16	11.05	10.63	9.75	9.50	9.00
Nigeria	6.5	6.6	6.4	6.4	7.0	6.2	8.5	8.8	10.6	10.8	9.9	9.2	11.75	11.75	12.50	11.25	9.00	9.00
South Africa	1.9	2.4	2.9	3.2	3.4	3.2	5.8	6.1	5.7	5.9	6.2	5.5	5.00	6.17	6.79	7.00	7.00	7.00
Argentina	4.9	1.0	1.5	-2.0	3.5	3.0	10.6	25.6	30.5	50.0	30.0	20.0	17.16	29.02	34.41	37.00	37.00	0.00
Brazil	2.1	1.3	1.8	2.5	3.0	3.0	6.2	6.0	6.0	5.5	5.5	5.5	8.44	10.73	11.90	11.50	11.00	11.00
Mexico	1.1	3.8	4.0	4.4	4.5	4.6	3.8	4.3	3.7	3.6	3.6	3.6	3.94	3.50	3.94	5.40	6.42	6.75
Venezuela	1.5	-1.0	1.9	1.9	1.9	1.9	38.5	63.2	81.4	60.0	60.0	60.0	14.50	14.50	14.50	14.80	14.80	14.80

Note: For inflation, we use the PCE deflator in the US, GDP deflator in Ireland. For Indonesia we refer to the FasBI rate to reflect actual money market rates.
Source: Citi Research

Figure 11. Selected Countries — Economic Forecast Overview (Percent), 2013-2018F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2013F	2014F	2015F	2016F	2017F	2018F	2013F	2014F	2015F	2016F	2017F	2018F	2013F	2014F	2015F	2016F	2017F	2018F
Global	0.7	0.8	0.6	0.3	0.1	0.1	-3.7	-3.0	-2.5	-2.4	-2.3	-1.9	89	87	87	86	85	84
Based on PPP weights	*0.5*	*0.5*	*0.3*	*0.1*	*-0.1*	*-0.1*	*-3.7*	*-3.1*	*-2.7*	*-2.5*	*-2.4*	*-2.1*	*80*	*81*	*80*	*79*	*78*	*77*
Industrial Countries	-0.2	0.0	0.2	0.2	0.2	0.2	-4.8	-3.5	-2.7	-2.6	-2.4	-2.3	116	114	115	114	114	113
United States	-2.2	-2.0	-1.5	-1.8	-1.7	-1.4	-5.7	-3.9	-3.0	-3.4	-3.4	-3.8	105	107	106	106	106	106
Japan	0.6	0.2	0.1	0.8	1.0	1.0	-9.8	-8.0	-6.2	-5.8	-5.4	-5.0	244	246	251	255	258	260
Euro Area	2.2	2.5	2.6	2.6	2.5	2.3	-2.9	-2.4	-2.1	-1.7	-1.5	-1.1	96	97	97	97	96	94
Canada	-3.3	-2.5	-2.4	-2.0	-1.8	-1.9	-0.9	-0.1	0.3	0.4	0.4	0.4	96	95	93	90	86	84
Australia	-3.0	-3.0	-3.1	-3.3	-3.7	-3.6	-1.2	-3.0	-2.1	-1.4	-1.0	-1.5	30	32	34	33	33	34
New Zealand	-3.3	-4.2	-5.4	-5.0	-5.4	-6.6	-2.9	-1.6	-0.4	0.5	1.2	2.2	40	39	36	37	37	34
Germany	7.3	6.3	5.5	5.1	4.7	4.4	0.0	0.0	0.0	-0.1	-0.4	-0.5	79	77	74	71	69	68
France	-1.5	-0.8	-0.1	0.4	0.1	-0.2	-4.1	-3.6	-3.1	-2.8	-2.3	-1.8	94	96	97	98	97	96
Italy	0.9	1.3	1.6	1.9	2.2	2.4	-3.1	-2.8	-2.4	-2.0	-1.8	-1.4	133	137	139	140	140	139
Spain	0.6	0.7	0.7	0.5	0.5	0.6	-6.9	-5.8	-4.6	-3.5	-2.9	-2.4	94	99	103	104	105	105
Greece	0.7	1.9	2.4	2.8	3.2	3.1	-3.7	-3.7	-2.7	-2.5	-2.1	-1.9	177	188	195	198	197	194
Ireland	8.4	8.7	7.8	6.9	6.1	5.4	-7.1	-5.0	-2.9	-2.2	-1.6	-0.9	124	121	122	118	115	110
Portugal	0.4	2.2	2.5	2.6	2.7	2.7	-5.5	-4.5	-3.4	-2.5	-1.9	-1.7	129	136	139	141	140	140
Netherlands	10.2	9.9	8.9	8.4	7.9	7.5	-3.8	-3.4	-2.8	-2.2	-1.2	0.0	75	76	77	77	76	73
Belgium	-1.7	-0.1	0.6	0.8	0.6	0.4	-3.1	-2.7	-1.6	-1.0	-0.5	0.1	102	103	102	100	97	93
Denmark	7.2	6.7	5.7	5.4	5.6	5.6	-0.7	-1.5	-2.4	-1.0	-1.0	-0.9	46	46	47	46	46	45
Norway	11.9	12.2	12.5	12.8	13.0	13.2	11.3	11.8	11.0	10.0	10.0	9.0	NA	NA	NA	NA	NA	NA
Sweden	6.2	5.9	5.6	5.6	5.4	5.3	-1.4	-1.6	-1.0	-0.3	0.5	1.2	40	40	39	38	35	32
Switzerland	12.2	12.9	12.7	13.7	14.0	14.0	0.2	0.6	0.8	1.2	1.2	0.9	48	46	45	45	44	44
United Kingdom	-3.7	-3.2	-3.4	-3.4	-3.2	-2.9	-6.8	-5.5	-4.2	-2.6	-1.4	-0.2	94	97	97	96	95	92
Emerging Markets	2.0	1.8	1.2	0.5	0.1	-0.1	-2.1	-2.3	-2.2	-2.0	-2.1	-1.4	45	45	44	44	43	42
China	2.2	2.0	1.5	0.8	0.5	0.5	-2.0	-2.0	-1.5	-1.5	-1.5	-1.5	54	54	52	51	49	48
Taiwan	11.7	11.0	10.2	8.0	8.0	8.0	-1.5	-1.4	-0.8	-0.6	-0.6	-0.6	40	40	39	39	39	38
India	-2.0	-2.3	-2.2	-2.2	-2.3	-2.3	-6.9	-6.7	-6.5	-6.2	-5.9	-5.5	70	68	66	65	63	61
Indonesia	-3.3	-2.5	-2.1	-1.7	-1.5	-1.6	-2.2	-2.2	-1.7	-1.9	-2.0	-2.0	24	26	25	25	25	25
Korea	5.9	4.1	3.3	2.5	1.7	0.7	0.9	1.0	1.6	1.9	2.1	1.8	35	33	31	29	28	27
Czech Republic	-0.7	0.0	-0.4	0.5	-0.3	-1.4	-2.4	-2.9	-2.9	-2.8	-2.5	-2.0	47	46	47	48	48	48
Hungary	2.0	2.5	2.0	1.7	1.4	1.4	-2.6	-2.9	-2.9	-2.9	-3.0	-3.0	79	81	80	79	78	77
Poland	-1.5	-2.5	-3.6	-4.4	-4.6	-4.3	-4.2	5.7	-2.3	-2.2	-2.2	-2.2	54	47	46	45	44	44
Romania	-1.1	-2.5	-4.2	-4.5	-4.5	-4.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	43	42	41	40	39	39
Russia	1.6	1.2	0.9	-0.4	-1.4	-2.5	-2.0	-4.3	-4.9	-1.4	-1.4	-1.4	7	9	13	13	13	13
Turkey	-7.8	-5.2	-5.3	-5.5	-5.4	-5.3	-1.2	-2.8	-3.2	-3.3	-3.3	-3.3	37	37	37	36	35	33
Nigeria	7.0	4.4	2.6	2.1	2.0	1.2	-2.1	-2.9	-2.9	-2.7	-2.5	-2.4	NA	NA	NA	NA	NA	NA
South Africa	-5.8	-4.7	-4.2	-3.7	-3.1	-2.9	-4.2	-4.2	-4.3	-3.8	-3.0	-2.1	46	47	49	50	49	51
Argentina	-0.6	-0.5	-0.4	3.0	1.0	1.0	-2.4	-3.1	-2.3	0.0	-0.5	-1.0	40	48	56	54	53	52
Brazil	-3.7	-3.9	-3.8	-3.8	-3.7	-3.7	-3.3	-3.7	-2.8	-3.1	-3.1	-3.1	57	58	57	58	58	58
Mexico	-1.7	-2.0	-1.7	-1.4	-1.5	-1.5	-2.4	-3.5	-2.5	-2.0	-2.0	-2.0	38	38	38	37	37	37
Venezuela	3.3	4.0	5.1	3.0	3.0	3.0	-11.9	-11.1	-10.3	-12.0	-12.1	-11.5	42	41	40	41	42	43

Note: Fiscal deficit and debt figures for all countries are general government debt and deficits. For Spain, fiscal deficits include the effect of financial support for banks. For Greece, we assume further reductions in the cost of official loans.

Figure 12. Selected Countries — Changes in Economic Forecasts (Percentage Points), 2013-2015F

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2013F	2014F	2015F	2013	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Global		-0.2						0.1			0.1	0.2
Based on PPP weights	*-0.1*	*-0.2*					*0.1*	*0.1*		*-0.1*	*0.1*	*0.1*
Industrial Countries		-0.3	0.1						0.1		0.3	0.3
United States		-0.5					0.1	-0.1	0.1	0.1	0.7	0.9
Japan	-0.1	-0.4		0.1	0.2		-0.1	-0.2	-0.2			
Euro Area					-0.2	-0.1					0.1	-0.1
Canada		-0.2			0.4	-0.1	0.2	1.2	0.8		0.2	0.1
Australia	0.1	0.2			0.2		0.2	1.0	1.0			
New Zealand							0.4	0.5	-0.6	-0.9	-0.6	-0.4
Germany						0.1	0.5	-0.2	-0.5	-0.2		
France	0.1				-0.2	-0.1	0.1					
Italy	-0.1				-0.2							0.3
Spain					0.1	0.1	-0.4	-0.3	-0.7			0.2
Greece	-0.3	0.9	0.8		0.4	0.3				-0.1	-0.2	-0.3
Ireland	0.1	0.1	0.1		0.5	0.1		0.1		-0.1	-0.3	0.1
Portugal	0.2	1.3	0.4		-0.2					0.5	0.1	0.4
Netherlands	0.2	0.5		0.1	-0.4			-0.5	-0.5	-0.3	-0.8	-0.9
Belgium					-0.1						-0.1	-0.1
Denmark							0.9	0.9	0.7	0.5	0.3	-0.9
Norway	0.3	0.2										
Sweden												
Switzerland												
United Kingdom					-0.2		-0.1	-0.3	-0.3	-0.1	-0.2	-0.2
Emerging Markets	-0.1	-0.1			-0.1		0.0	0.1	0.1	-0.1	-0.2	-0.1
China					-0.1							
Taiwan	0.1				-0.4	-0.4	0.8	1.2	0.7			0.4
India	0.1		-0.5	-0.4			0.3		-0.1			-0.2
Indonesia	0.1			-0.6	0.1			0.4	0.3		-4.4	
Korea	-0.1		-0.1				0.1	0.1	0.2			
Czech Republic	0.3				0.1		0.1	0.3	0.5			
Hungary	0.1		0.2		-0.2	0.1	0.1	1.1	0.9	0.1		
Poland	0.1	0.3		1.7	0.1		0.3	-0.1	-0.2		0.1	
Romania	0.9	0.2			0.8	0.7	0.1					
Russia	-0.1				0.1			0.1	0.1			
Turkey		-0.2			0.4	-0.2	-0.7	0.7	1.1			
Nigeria							2.0	1.2	0.4			
South Africa	0.1	-0.4	-0.6		0.5	0.2	0.1	0.5	0.7	0.2	0.1	0.1
Argentina	-0.2	-2.0	-0.5	0.1	13.2	16.7	-0.1	-0.1		-0.1		
Brazil	-0.2	-0.5	-0.2			0.3	-0.2	-0.6	-0.8	0.3	0.2	-0.1
Mexico	-0.1				-0.1	-0.1						
Venezuela				-0.2	-4.1	1.9	0.0	0.2	1.5	-0.1	-0.1	-0.2

Source: Citi Research

Figure 13. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent), 2013-2018F

	10-Year Yields						Exchange Rates Versus U.S. Dollar*						Exchange Rate Versus Euro					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Industrial Countries																		
United States	2.35	2.90	3.40	3.75	4.10	4.25	NA	NA	NA	NA	NA	NA	1.33	1.39	1.41	1.41	1.41	1.41
Japan	0.71	0.68	1.06	1.25	1.50	1.50	98	106	112	115	115	115	130	147	157	162	162	162
Euro Area	1.60	1.71	1.90	2.15	2.40	2.65	1.33	1.39	1.41	1.41	1.41	1.41	NA	NA	NA	NA	NA	NA
Canada	2.26	2.69	3.31	3.60	3.90	3.90	1.03	1.14	1.15	1.14	1.13	1.11	1.37	1.58	1.62	1.61	1.59	1.56
Australia	3.65	4.45	4.83	5.50	5.50	5.80	0.97	0.91	0.92	0.92	0.92	0.92	1.37	1.53	1.54	1.53	1.53	1.53
New Zealand	3.98	5.04	5.58	5.65	5.80	6.00	0.82	0.84	0.85	0.83	0.80	0.77	1.62	1.65	1.65	1.69	1.76	1.84
Germany	1.60	1.71	1.90	2.15	2.40	2.65												
France	2.15	2.36	2.55	2.80	3.05	3.30												
Italy	4.27	3.49	3.45	3.70	3.95	4.20												
Spain	4.57	3.38	3.23	3.48	3.73	3.98												
Netherlands	1.93	2.03	2.20	2.45	2.70	2.95												
Belgium	2.38	2.39	2.55	2.80	3.05	3.30												
Denmark	1.73	1.80	2.00	2.30	2.65	2.90	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.57	2.82	2.75	2.90	3.15	3.40	5.88	5.86	5.57	5.38	5.21	5.05	7.81	8.13	7.82	7.59	7.35	7.12
Sweden	2.10	2.42	2.63	2.75	2.90	3.15	6.51	6.41	6.24	6.13	5.98	5.83	8.65	8.89	8.77	8.65	8.43	8.22
Switzerland	0.82	1.01	1.00	1.20	1.40	1.59	0.93	0.90	0.91	0.91	0.92	0.92	1.23	1.24	1.27	1.29	1.29	1.29
United Kingdom	2.34	3.13	3.60	3.75	3.90	4.05	1.56	1.75	1.75	1.75	1.77	1.78	0.85	0.79	0.80	0.81	0.80	0.79
Emerging Markets																		
China	3.68	4.68	5.11	5.49	5.86	6.11	6.15	6.02	6.00	6.01	6.03	6.05	8.17	8.35	8.44	8.47	8.50	8.53
Taiwan	1.46	1.76	2.14	2.50	2.80	3.10	29.68	30.39	29.97	29.37	28.91	28.44	39.43	42.15	42.14	41.42	40.76	40.10
India	8.25	8.50	8.50	8.00	7.50	7.50	58.57	63.0	63.5	61.5	58.5	55.4	77.80	87.4	89.3	86.7	82.4	78.1
Indonesia	6.97	8.58	8.75	8.75	8.75	8.75	10449	12108	12083	11598	10765	9933	13881	16794	16987	16353	15179	14005
Korea	3.00	3.52	4.03	4.30	4.55	4.75	1095	1065	1008	1000	975	970	1454	1477	1417	1410	1375	1368
Czech Republic	2.09	2.48	2.50	2.61	2.97	3.20	19.6	19.8	19.2	18.5	18.0	17.5	26.0	27.5	27.0	26.1	25.4	24.7
Hungary	5.92	6.40	6.68	6.50	6.50	6.50	223	235	236	233	231	228	297	326	332	328	325	322
Poland	4.05	4.65	4.97	5.15	4.99	0.48	3.16	3.05	2.99	2.88	2.84	2.79	4.20	4.23	4.20	4.07	4.00	3.93
Romania	NA	NA	NA	NA	NA	NA	3.33	3.30	3.20	3.11	3.06	3.00	4.42	4.57	4.49	4.39	4.32	4.24
Russia	NA	NA	NA	NA	NA	NA	31.9	37.4	38.1	38.0	38.0	38.0	42.3	51.9	53.5	53.6	53.6	53.6
Turkey	NA	NA	NA	NA	NA	NA	1.91	2.36	2.46	2.42	2.25	2.09	2.53	3.27	3.46	3.41	3.18	2.94
Nigeria	NA	NA	NA	NA	NA	NA	159	164	168	171	175	180	212	227	237	241	247	254
South Africa	7.20	7.83	8.04	8.14	8.38	8.77	9.65	11.48	11.58	11.23	10.66	10.09	12.82	15.92	16.28	15.83	15.03	14.23
Argentina	NA	NA	NA	NA	NA	NA	5.45	8.89	11.81	18.62	26.06	31.00	7.24	12.32	16.60	26.25	36.74	43.71
Brazil	9.98	13.44	15.13	13.56	11.75	11.75	2.16	2.59	2.79	2.75	2.54	2.33	2.87	3.60	3.92	3.88	3.58	3.28
Mexico	5.67	6.75	7.38	7.60	7.95	8.00	12.8	13.2	12.9	12.6	12.5	12.4	17.0	18.3	18.1	17.8	17.6	17.4
Venezuela	10.76	13.29	15.09	15.50	15.50	15.50	5.99	10.58	19.80	31.28	49.43	78.10	7.96	14.67	27.84	44.11	69.69	110.12

*Per USD except Euro Area, Australia, New Zealand, United Kingdom. For China we use 5Y bond yields. Source: Citi Research

Figure 14. Short Rates (End of Period), as of 26 February 2014 (Percent)

	Current	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Euro Area	0.25	0.10	0.10	0.10	0.10	0.10	0.10
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Australia	2.50	2.50	2.50	2.50	2.50	2.75	3.25
New Zealand	2.50	2.75	3.25	3.50	3.75	4.00	4.25
Denmark	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Norway	1.50	1.50	1.50	1.50	1.50	1.50	1.75
Sweden	0.75	0.75	0.75	0.75	0.75	0.75	1.00
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.50	0.75	1.25	1.50
China	3.00	3.00	3.00	3.00	3.25	3.50	3.75

Note: The rates shown are overnight rates, except for Denmark, where it is the central bank's lending rate; Switzerland, where it is the SNB's three-month Libor target; and China, where it is the one-year deposit rate. Source: Citi Research

Figure 15. 10-Year Yield Forecasts (Period Average), as of 26 February 2014 (Percent)

	Current	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15
United States	2.74	2.70	2.80	2.95	3.10	3.30	3.40
Japan	0.59	0.63	0.55	0.70	0.85	0.95	1.05
Euro Area (Germany)	1.67	1.70	1.65	1.70	1.80	1.90	1.90
Canada	2.48	2.50	2.60	2.75	2.90	3.20	3.30
Australia	4.16	4.30	4.40	4.50	4.60	4.70	4.80
New Zealand	4.53	4.75	4.90	5.10	5.40	5.50	5.60
Denmark	1.65	1.77	1.75	1.80	1.90	2.00	2.00
Norway	2.80	2.82	2.77	2.80	2.90	2.80	2.75
Sweden	2.21	2.32	2.35	2.45	2.55	2.65	2.65
Switzerland	0.98	1.00	0.98	1.00	1.05	1.09	1.09
United Kingdom	2.77	2.85	3.00	3.25	3.40	3.50	3.60

Note: Bond yields measured on local market basis (semi-annual for the United States, United Kingdom, Canada, Australia, and New Zealand; annual for the rest). The 10-year yield for the euro area is the Bund yield. Source: Citi Research

Figure 16. 10-Year Yield Spreads (Period Average), as of 26 February 2014

		Spread vs. US$					Spread vs. Germany					
	Current	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	Current	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15
United States	NA	NA	NA	NA	NA	NA	109	102	117	127	132	143
Japan	-213	-217	-212	-212	-217	-228	-104	-115	-95	-85	-85	-85
Euro Area	-109	-102	-117	-127	-132	-143	NA	NA	NA	NA	NA	NA
Canada	-26	-20	-20	-20	-20	-10	83	82	97	107	112	133
Australia	144	163	163	158	153	143	253	265	280	285	285	286
New Zealand	182	209	214	219	235	225	291	311	331	347	367	368
France	-50	-37	-52	-62	-67	-78	57	65	65	65	65	65
Italy	85	98	63	43	28	17	192	200	180	170	160	160
Spain	81	88	58	33	8	-3	188	190	175	160	140	140
Netherlands	-85	-67	-87	-97	-102	-113	22	35	30	30	30	30
Belgium	-34	-32	-47	-62	-67	-78	73	70	70	65	65	65
Austria	-80	-67	-82	-97	-102	-113	27	35	35	30	30	30
Finland	-78	-82	-97	-107	-112	-123	29	20	20	20	20	20
Ireland	41	48	13	-7	-22	-43	148	150	130	120	110	100
Denmark	-109	-92	-107	-117	-122	-133	-2	7	10	10	10	10
Norway	6	10	-7	-17	-42	-58	113	112	112	110	110	90
Sweden	-53	-32	-42	-52	-57	-68	54	62	70	75	75	75
Switzerland	-176	-172	-184	-197	-207	-224	-69	-70	-67	-70	-75	-81
United Kingdom	3	15	20	30	30	20	110	117	137	158	163	163

NA Not applicable. Note: Spreads calculated on annual basis (except those of the United Kingdom, Canada, Australia and New Zealand over the United States). Source: Citi Research

Figure 17. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as of 26 February 2014

Country	Current Rate (%)	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Total Cumulative Rate Moves Expected
Hungary	2.70	-10	-10	25	75	50	130
Brazil	10.50	25	0	0	0	100	125
Poland	2.50	0	0	25	25	50	100
South Africa	5.50	50	0	50	0	0	100
Turkey	10.14	6	80	50	0	-50	86
Philippines	3.50	0	0	25	25	25	75
China	3.00	0	0	0	25	25	50
Malaysia	3.00	0	25	25	0	0	50
Indonesia	5.75	25	0	0	0	25	50
Korea	2.50	0	0	0	0	25	25
Israel	0.75	0	-25	0	75	-25	25
Mexico	3.50	0	0	0	0	0	0
India	8.00	0	0	0	0	0	0
Thailand	2.25	-25	0	0	0	25	0
Russia	8.25	0	0	0	0	-25	-25
Chile	4.25	-25	0	0	0	0	-25

Note: For Turkey we use the average funding rate of the CBT instead of the 1-week repo rate. Source: Citi Research

Figure 18. Foreign Exchange Forecasts (End of Period), as of 26 February 2014

	vs. USD						vs. EUR					
	Current	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15	Current	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15
United States	NA	NA	NA	NA	NA	NA	1.37	1.37	1.38	1.39	1.40	1.40
Japan	102	105	106	107	108	109	140	144	146	149	151	153
Euro Area	1.37	1.37	1.38	1.39	1.40	1.40	NA	NA	NA	NA	NA	NA
Canada	1.12	1.13	1.14	1.15	1.15	1.15	1.53	1.55	1.57	1.60	1.61	1.61
Australia	0.90	0.90	0.90	0.91	0.91	0.91	1.52	1.52	1.53	1.54	1.54	1.54
New Zealand	0.83	0.83	0.84	0.85	0.85	0.85	1.65	1.65	1.65	1.65	1.65	1.65
Norway	6.11	6.04	5.91	5.79	5.69	5.64	8.38	8.29	8.18	8.06	7.97	7.91
Sweden	6.56	6.56	6.45	6.34	6.28	6.26	8.99	8.99	8.92	8.84	8.80	8.79
Switzerland	0.89	0.90	0.90	0.89	0.89	0.90	1.22	1.23	1.24	1.25	1.25	1.26
United Kingdom	1.67	1.71	1.74	1.76	1.77	1.76	0.82	0.80	0.80	0.79	0.79	0.80
China	6.09	6.04	6.02	6.01	6.00	6.00	8.3	8.3	8.3	8.4	8.4	8.4
India	62.1	61.6	62.6	63.7	64.1	63.9	85.2	84.5	86.6	88.7	89.9	89.6
Korea	1072	1061	1068	1076	1077	1071	1470	1455	1477	1499	1509	1503
Poland	3.04	3.00	3.04	3.08	3.09	3.05	4.17	4.11	4.20	4.30	4.33	4.28
Russia	35.9	36.5	37.1	37.8	38.1	38.1	49.2	50.1	51.3	52.6	53.4	53.4
South Africa	11.04	11.22	11.41	11.59	11.68	11.64	15.13	15.39	15.77	16.16	16.37	16.33
Turkey	2.20	2.30	2.34	2.38	2.41	2.43	3.01	3.16	3.24	3.32	3.37	3.41
Brazil	2.37	2.46	2.55	2.65	2.71	2.74	3.25	3.37	3.53	3.69	3.80	3.85
Mexico	13.3	13.3	13.2	13.2	13.1	13.0	18.2	18.3	18.3	18.3	18.3	18.2

Source: Citi Research

Figure 19. Foreign Exchange Forecasts (End of Period), as of 26 February 2014

	vs. JPY					
	Current	Mar 14	Jun 14	Sep 14	Dec 14	Mar 15
United States	102	105	106	107	108	109
Japan	NA	NA	NA	NA	NA	NA
Euro Area	140	144	146	149	151	153
Canada	92	93	93	93	94	95
Australia	92	95	96	97	98	100
New Zealand	85.0	87.3	88.7	90.1	91.5	92.9
Norway	16.8	17.4	17.9	18.4	18.9	19.4
Sweden	15.6	16.0	16.4	16.8	17.2	17.4
Switzerland	115	117	118	119	120	122
United Kingdom	171	180	184	188	191	193
China	17	17	18	18	18	18
India	1.65	1.71	1.69	1.67	1.68	1.71
Korea	10.46	10.10	10.09	10.09	10.00	9.81
Poland	33.7	35.1	34.8	34.6	34.9	35.8
Russia	2.9	2.9	2.8	2.8	2.8	2.9
South Africa	9.3	9.4	9.3	9.2	9.2	9.4
Turkey	46.6	45.6	45.2	44.8	44.7	45.0
Brazil	43.2	42.7	41.5	40.3	39.7	39.8
Mexico	7.7	7.9	8.0	8.1	8.2	8.4

Source: Citi Research

Country Commentary

United States

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Disruptions caused by extreme winter weather have reinforced a temporary slowing in growth following an unsustainable burst in activity in the second half of last year. Most lost output from weather delays should be made up quickly and yet some may not be recoverable. The updated forecast shows a resumption of above-average growth through 2015 with unemployment dropping to near 6% this year and inflation staying low but edging above 1½%. With fiscal drag dissipating, the economy has key supports from still ample resource slack and a strong financial tailwind.

Monetary policy prospects remain unchanged as the Fed continues to shift the focus of accommodation from asset purchases to anchoring forwards. Officials have set high hurdles for altering a gradual tapering of QE, but preparations for rate hikes are not anticipated until spring of next year, with modest tightening beginning that summer. We see two-way risks here: Forward rate guidance has shifted the focus somewhat to the lack of inflation pressures, which could delay action beyond 2015. But a plausible case for faster recovery and encouraging wage gains could telescope initial tightening to the start of next year.

The outlook for inflation remains softer than policymakers' medium-term goal of 2%. Slower global growth reduced pressures on tradable goods prices but the effects of some one-off price declines are fading now. We expect a gradual move closer to the 2% target underpinned by domestic demand, tightening job markets and an eventual pickup in global growth.

Figure 20. United States — Economic Forecasts, 2013-2015F

					2013		2014				2015	
		2013F	2014F	2015F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
GDP	SAAR				4.1%	2.2%	1.0%	3.5%	3.4%	3.1%	3.2%	2.8%
	YoY	1.9%	2.6%	3.1%	2.0	2.5	2.5	2.7	2.5	2.8	3.3	3.1
Domestic Demand	SAAR				2.3	1.2	2.4	3.4	3.6	3.0	3.0	2.9
	YoY	1.5	2.5	3.1	1.6	1.5	2.0	2.3	2.6	3.1	3.2	3.1
Consumption	SAAR				2.0	2.9	2.0	3.4	3.4	3.0	3.0	3.0
	YoY	2.0	2.7	3.1	1.9	2.2	2.2	2.6	2.9	3.0	3.2	3.1
Business Investment	SAAR				4.8	4.5	4.8	6.1	6.6	5.5	4.9	4.2
	YoY	2.6	5.3	5.1	3.5	2.3	4.7	5.1	5.5	5.8	5.8	5.3
Housing Investment	SAAR				10.3	-8.6	4.6	9.4	16.1	10.6	11.2	11.2
	YoY	12.1	5.9	11.9	14.2	6.7	4.7	3.6	5.0	10.1	11.8	12.2
Government	SAAR				0.4	-5.6	1.9	0.6	0.1	0.0	0.1	0.1
	YoY	-2.3	-0.5	0.1	-2.7	-2.5	-1.0	-0.7	-0.8	0.6	0.2	0.1
Exports	SAAR				3.9	9.4	3.3	6.5	5.0	4.7	4.9	5.0
	YoY	2.7	5.7	5.1	2.9	4.9	6.1	5.8	6.0	4.9	5.3	4.9
Imports	SAAR				2.4	1.8	4.3	2.5	3.6	4.6	5.2	5.3
	YoY	1.4	3.3	4.7	1.6	2.9	3.8	2.7	3.0	3.7	4.0	4.7
PCE Deflator	YoY	1.1	1.5	1.7	1.1	0.9	1.1	1.6	1.5	1.7	1.7	1.7
Core PCE Deflator	YoY	1.2	1.5	1.8	1.2	1.1	1.2	1.5	1.6	1.7	1.8	1.8
Unemployment Rate	%	7.4	6.4	5.9	7.2	7.0	6.6	6.5	6.2	6.1	6.0	6.0
Federal Gov't Balance (Fiscal Year)	$Bn	-680	-500	-450								
	% of GDP	-4.1	-2.9	-2.5								
General Gov't Balance (Cal Year)	% of GDP	-5.7	-3.9	-3.0								
Federal Debt	% of GDP	72	73	73								
General Gov't Debt	% of GDP	105	107	106								
Current Account	US$bn	-378	-349	-280	-379	-325	-370	-354	-343	-330	-307	-288
	% of GDP	-2.2	-2.0	-1.5	-2.2	-1.9	-2.2	-2.0	-1.9	-1.8	-1.7	-1.6
S&P 500 Profits (US$ Per Share)	YoY	6.1	6.7	7.2	6.5	7.4	6.1	6.2	6.1	8.5	NA	NA

Notes: F Citi forecast. E Citi Estimate. YoY Year-to-year percent change. SAAR Seasonally adjusted annual rate. Domestic demand excludes inventories and net exports.
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, I/B/E/S, Treasury Department, *Wall Street Journal* and Citi Research forecasts

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Japan

The Japanese economy already appears to be undershooting the Bank of Japan's (BoJ) relatively bullish scenario. First, export volumes have remained range-bound since last summer despite the earlier yen depreciation. Virtually flat growth in Asia, along with an increasing share of overseas production at Japan's manufacturers, is probably capping export growth. Second, if adjusted for ongoing frontloaded demand ahead of the consumption tax hike in April, consumer spending also appears lacklustre. The substantial rise in the CPI driven by yen depreciation has eroded real purchasing power of household nominal income badly. In addition, the 3%-point consumption tax hike likely will lift the core CPI (excluding fresh food) by 2% in the context of only modest growth in wages (especially base salaries).

Market expectations for preemptive BoJ easing, for example by this spring, have receded over recent weeks, as policymakers reiterated their bullish view on the economy and core inflation continued to surprise to the upside. We continue to expect the BoJ to implement additional easing, centered on increased purchases of JGBs, in June or July after having confirmed the negative impact from the tax hike. The BoJ's fresh easing will likely drive renewed yen depreciation and a resultant rally in Japan's equity markets later this year, in our view.

PM Abe has yet to show a compelling Growth Strategy, the so-called "third arrow" of Abenomics. The government currently plans to reveal a blueprint for the corporate tax reform for 2015 and beyond in this June. In our view, however, the most likely outcome is a combination of a broader tax base (i.e. by cutting various tax deductions) and a modest reduction — probably a couple of points — in the effective tax rate from 35.6%. We doubt that such measures would have a meaningful impact on corporate behaviour.

Figure 21. Japan — Economic Forecasts, 2013-2015F

					2013		2014				2015	
		2013F	2014F	2015F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	1.6%	1.2%	1.0%	2.4%	2.7%	2.6%	0.6%	0.8%	1.0%	0.0%	1.4%
	SAAR				1.1	1.0	4.2	-3.9	2.1	1.7	0.2	1.4
Domestic Demand	YoY	1.8	1.0	0.7	2.4	3.1	3.1	0.7	0.3	0.0	-0.7	1.4
	SAAR	-	-	-	2.9	3.1	3.1	-6.1	1.5	1.7	0.4	1.9
Private Consumption	YoY	2.0	0.2	0.5	2.3	2.4	2.8	-0.6	-0.6	-0.6	-1.9	1.5
	SAAR	-	-	-	0.9	2.0	5.8	-10.3	0.9	2.0	0.4	2.8
Business Investment	YoY	-1.3	4.2	4.0	-0.7	1.7	4.3	3.6	4.5	4.4	3.7	4.3
	SAAR	-	-	-	0.8	5.3	6.8	1.5	4.3	5.1	4.0	3.9
Housing Investment	YoY	8.8	-1.9	1.6	8.5	10.5	6.6	-0.6	-5.0	-7.8	-3.2	4.9
Public Investment	YoY	11.6	2.9	-8.7	18.6	20.8	12.5	6.9	0.0	-6.0	-6.5	-9.5
Exports	YoY	1.6	3.9	4.5	3.4	7.0	3.7	2.3	4.5	5.3	5.1	4.3
	SAAR	-	-	-	-2.7	1.7	4.1	6.3	5.9	4.8	3.4	2.9
Imports	YoY	3.3	2.5	2.6	3.4	9.1	7.1	3.1	1.2	-1.1	1.0	4.7
	SAAR	-	-	-	10.1	14.9	-3.1	-7.8	2.1	4.8	5.5	6.7
CPI	YoY	0.4	2.8	1.6	0.9	1.4	1.6	3.7	3.1	2.9	2.8	0.8
Core CPI	YoY	0.4	2.6	1.6	0.7	1.1	1.3	3.2	2.9	2.9	2.8	0.8
Nominal GDP	YoY	1.0	2.4	1.4	0.2	0.4	0.9	0.6	0.4	0.7	0.0	0.4
Current Account	¥ tn	3	1	0	1	0	0	0	0	0	0	0
	% of GDP	0.6	0.2	0.1	0.1	-0.1	-0.1	0.1	0.1	0.1	0.0	-0.1
Unemployment Rate	%	4.0	3.7	3.6	4.0	3.9	3.7	3.7	3.8	3.7	3.6	3.6
Industrial Production	YoY	-0.6	5.3	1.3	2.3	5.7	8.3	5.8	4.3	3.0	0.3	1.6
Corporate Profits (Fiscal Year)	YoY	45.0	10.0	12.5								
General Govt. Balance (Fiscal Year)	% of GDP	-9.8	-8.0	-6.2								
General Govt Debt	% of GDP	244	246	251								

F Citigroup forecast. SAAR Seasonally adjusted annual rate. YoY Year-to-year percent change. Corporate profits are TSE-I nonfinancials consolidated recurring profits.
Source: Citi Research

Euro Area

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At 0.3% QQ, euro area Q4 GDP growth was slightly stronger than consensus expectations, but in line with our forecast. The preliminary estimates confirmed a modest re-acceleration in the pace of growth after a temporary slowdown to 0.1% QQ in Q3. With survey evidence continuing to point to a largely similar performance in Jan/Feb, we are comfortable with our baseline scenario of another 0.3% QQ gain in 1Q-14. Together with little evidence of much improvement in credit dynamics, particularly from the demand side of the equation, we doubt that the overall picture has changed sufficiently for the ECB to alter its assessment that the balance of risks to economic activity continues to lie to the downside.

Yet, financial fragmentation is declining as indicated by further compression in various corporate spreads, and investors' risk appetite is increasing — illustrated by further compression in periphery sovereign bond spreads. So far, investors appear to have digested the German Constitutional Court's decision to refer a case to the ECJ, arguing that three aspects of the OMT (pari passu status, 'unlimitedness' and its potential of affecting market price) are probably in violation of the ECB's mandate. With the OMT under threat, finding a mechanism to support spread compression could prove very valuable if the risk-free rate begins to increase. In this context, the European Reward System seems to have significant support.

Looking ahead to the March 7 ECB meeting, we believe that the Governing Council (GC) will cut its main refinancing rate by 15bp to 0.1%, but will decide to leave its deposit rate at 0%. The February press conference and subsequent comments from GC members confirmed that the ECB wanted to play for time, waiting for additional information that could help it address some key uncertainties. If, as we think likely, headline inflation in February shows another drop to around 0.7% YoY, and the 2016 mid-point (to be released for the first time) is around 1.5% — ie well below the ECB's '*less but close to 2% target*' — we think that the ECB will act. Such action, together with a probable decision in March to publish ECB meeting minutes, should help buy the GC more time until the June meeting, when we expect the deposit rate to be cut to -10bp.

Figure 22. Euro Area — Economic Forecasts, 2013-2015F

					2013		2014				2015	
		2013F	2014F	2015F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	-0.4%	1.1%	1.3%	-0.3%	0.5%	1.0%	1.0%	1.2%	1.3%	1.3%	1.3%
	SAAR				0.5	1.1	1.2	1.2	1.3	1.4	1.2	1.2
Final Domestic Demand	YoY	-0.8	1.0	1.2	-0.6	0.2	0.9	1.0	1.1	1.1	1.1	1.2
Private Consumption	YoY	-0.5	0.8	1.2	-0.4	0.3	0.6	0.7	0.9	1.0	1.1	1.2
Government Consumption	YoY	0.3	0.3	0.2	0.5	0.5	0.3	0.4	0.3	0.4	0.3	0.2
Fixed Investment	YoY	-2.9	2.6	2.4	-2.4	-0.2	2.4	2.7	2.7	2.4	2.3	2.4
Business Equipment	YoY	-2.0	3.5	3.5	-1.4	0.8	3.1	3.3	3.9	3.6	3.8	3.5
Construction	YoY	-3.8	1.5	1.9	-3.2	-1.4	1.3	1.8	1.3	1.4	1.4	1.9
Stocks (Contrib. to Y/Y GDP Growth)		-0.2	0.0	0.0	0.1	-0.2	-0.2	0.0	-0.2	0.3	0.2	0.1
Exports	YoY	1.3	2.9	3.4	0.9	2.7	4.2	2.6	2.7	2.0	2.5	3.0
Imports	YoY	0.1	2.9	3.4	0.6	1.9	3.7	2.8	2.3	2.6	2.8	3.2
CPI	YoY	1.4	0.7	0.7	1.3	0.8	0.6	0.8	0.5	0.7	0.9	0.8
CPI Ex Unprocessed Food & Energy	YoY	1.3	0.8	0.4	1.3	1.0	0.9	1.0	0.7	0.7	0.6	0.4
Unemployment Rate	YoY	12.1	11.9	11.6	12.1	12.0	12.0	12.0	11.8	11.8	11.8	11.7
Current Account Balance	EUR bn	212.7	247.5	261.1								
	% of GDP	2.2	2.5	2.6								
General Government Balance	EUR bn	-275.2	-238.2	-205.4								
	% of GDP	-2.9	-2.4	-2.1								
Primary Balance	% of GDP	0.1	0.5	1.0								
General Government Debt	EUR bn	9,160.5	9,447.4	9,632.9								
	% of GDP	95.7	97.1	97.2								
Gross Operating Surplus	YoY	1.3	2.5	2.3								

We publish further details of our European forecasts monthly in European Economic Forecast Highlights. Sources: Eurostat and Citi Research forecasts

Germany

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Our forecasts remain mostly unchanged this month and we expect the German economy to grow by around 2% YoY in 2014-5, driven by rising house prices, receding uncertainties and a pickup in household income growth. On the other hand, inflation remains low for now, as Germany continues to import disinflationary pressure due to the strong euro, plus low energy and other import prices. Towards H2 this year, higher domestic wage growth (partly due to the national minimum wage to be introduced in 2015) and slightly moderating external disinflation should raise inflation, leading us to expect 1.5% inflation in 2014 as a whole, and 1.9% in 2015, from 1.3% YY in January 2014.

France

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French 4Q GDP rose by 0.3% QQ, beating the 0.2% consensus, but undershooting our 0.4% QQ forecast. The split showed a solid gain in final domestic demand (0.5% QQ, 0.8% YY), thanks to a positive contribution from investment for the first time in eight quarters and a solid performance in household spending. In addition, the 4Q employment report showed that 14.7k private sector jobs had been created (+0.1% QQ, -0.4% YY), the first gain since 2Q-11, thanks to better dynamism in services. That both investment and employment are rebounding a little earlier than we had anticipated highlights a slight upside risk to our 0.9% 2014 GDP baseline. But it is clear that President Hollande must deliver quickly on his 'Responsibility Pact' to cement the improvement in business sentiment visible in 4Q-13.

Italy

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Q4 GDP posted the first QQ gain in 10 quarters, although at a still meagre 0.1% QQ pace. The recovery is lagging behind the euro area average, as the relative smaller adjustment in corporate balance sheets and poor competitiveness are preventing a more widespread improvement in the domestic economy. The decline in private consumption is likely to ease further, thanks to the broadly neutral fiscal stance and lower inflation. Payments of government debt arrears are boosting corporate liquidity, which should lift investment in H1 14, despite still-tight credit conditions. We expect inflation to weaken further amid ample spare capacity and the strong euro. Political instability is likely to persist even after the new Renzi-led government takes office, with some material risks of early elections later on this year. This will leave little scope for any progress on reforms beyond a new electoral law.

Figure 23. Germany, France and Italy — Economic Forecasts, 2013-15F

		Germany			France			Italy		
		2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	0.5%	2.0%	2.1%	0.3%	0.9%	1.1%	-1.9%	0.3%	0.3%
Final Domestic Demand	YoY	0.7	2.2	2.6	0.3	0.7	0.7	-2.5	0.3	0.4
Private Consumption	YoY	1.0	1.5	2.4	0.4	0.7	0.8	-2.4	0.0	0.3
Government Consumption	YoY	0.7	1.2	1.2	1.7	0.8	0.1	-0.1	0.1	-0.5
Fixed Investment	YoY	-0.6	5.5	5.0	-2.1	0.4	1.2	-5.4	1.4	1.6
Exports	YoY	1.0	3.3	3.7	0.6	2.0	2.6	0.1	1.8	2.4
Imports	YoY	1.0	3.6	4.9	0.8	1.7	1.5	-2.5	1.7	2.5
CPI	YoY	1.5	1.5	1.9	1.0	1.0	1.2	1.3	0.3	-0.3
Unemployment Rate	%	5.3	5.1	4.8	10.5	10.6	10.3	12.2	12.7	12.6
Current Account	€bn	201.7	176.9	159.0	-31.6	-16.0	-2.8	13.6	21.0	25.6
	% of GDP	7.3	6.3	5.5	-1.5	-0.8	-0.1	0.9	1.3	1.6
General Govt. Balance	€bn	0.3	-0.8	-0.3	-84.3	-75.3	-66.3	-48.7	-43.3	-38.1
	% of GDP	0.0	0.0	0.0	-4.1	-3.6	-3.1	-3.1	-2.8	-2.4
Primary Balance	% of GDP	2.4	2.2	2.1	-1.5	-1.0	-0.4	2.4	2.5	2.8
General Govt. Debt	% of GDP	78.6	76.6	73.8	93.9	96.3	97.4	132.7	136.6	138.9
Gross Trading Profits	YoY	2.3	4.8	4.7	0.9	2.5	2.7	NA	NA	NA

F Citi forecast. YoY Year-to-year growth rate. Note: The German annual figures are derived from quarterly Bundesbank data and adjusted for working days. Forecasts for GDP and its components are calendar adjusted. Sources: Deutsche Bundesbank, Statistisches Bundesamt, INSEE, ISTAT and Citi Research forecasts

Spain

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We keep our forecast for real GDP in 2014 at 0.9% and 2015 at 1.1%, based on supportive signs that the economic recovery is maintaining momentum in Q1 14. Survey data remains strong (PMIs back to pre-crisis levels), while employment has shown first signs of expansion. Competitiveness gains and a strengthened balance sheet position of firms should allow for a pick-up in investment, while improvements in real disposable income (thanks to falling inflation) should boost private consumption, despite ongoing deleveraging pressures and a record-low saving rate.

Greece

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We are lifting our 2014-15 GDP growth forecasts, although we still expect the recession to last until 2015. These revisions reflect improvements in business surveys and smaller cuts in government spending. However, private sector liquidity remains poor, the household saving rate is still negative and exports are lagging periphery peers. Deflation is likely to persist. The better-than-expected 2013 primary surplus may lead to further debt relief in 2014, but probably not a debt write-off – which in our view would be needed to restore fiscal sustainability.

Ireland

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After strong gains in GDP in Q2 and Q3 2013, recent data suggest growth was modest in Q4 (we expect 0.4% QoQ). Indeed, there is a risk that a pullback in investment (which jumped 10.9% QoQ in Q3) could pull Q4 growth into negative territory. Nevertheless, abstracting from the near-run volatility and "patent cliff", the economy does seem to be picking up. Faster growth is likely to bring the public debt/GDP ratio slightly lower this year, although Ireland's path back to fiscal sustainability remains vulnerable to external shocks and currency swings.

Portugal

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We have raised significantly our GDP growth forecasts for 2014 from 0.2% to 1.5% and from 0.8% to 1.2% in 2015, on higher Q4 13 GDP data, the earlier-than-expected recovery in consumer spending and reduced fiscal drag. The government beat its 2013 fiscal targets, and hence some of the planned spending cuts for 2014 probably will not be adopted. Better domestic demand will still likely keep the 2014 fiscal deficit close to target. Inflation will likely continue falling, keeping nominal GDP growth subdued, hence keeping the public debt-to-GDP ratio rising in the next couple of years. We now expect a *"clean exit"* from the bailout programme in May, as political costs of a precautionary credit line likely outweigh its potential benefits.

Figure 24. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2013-15F

		Spain			Greece			Ireland			Portugal		
		2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	-1.2%	0.9%	1.1%	-3.7%	-1.0%	0.4%	0.1%	2.2%	2.3%	-1.4%	1.5%	1.2%
Final Domestic Demand	YoY	-2.8	0.5	0.6	-7.0	-1.1	-0.1	-0.9	1.7	1.4	-2.5	1.4	1.0
Private Consumption	YoY	-2.4	1.1	1.0	-6.6	-1.3	-0.1	-1.0	2.0	1.8	-1.5	1.6	1.0
Government Consumption	YoY	-1.0	-0.3	-0.9	-4.8	0.1	-0.7	-1.0	-2.8	-2.5	-2.1	-1.1	0.4
Fixed Investment	YoY	-5.8	-0.2	0.8	-11.9	-1.7	0.8	-0.6	6.5	5.1	-6.8	4.0	1.5
Exports	YoY	5.0	5.4	4.9	2.0	2.7	2.8	-0.1	5.1	4.9	6.0	4.6	4.0
Imports	YoY	0.3	4.9	3.8	-4.6	0.9	1.0	-0.3	4.7	4.9	2.8	4.7	3.5
CPI	YoY	1.5	-0.1	0.0	-0.9	-2.3	-2.1	0.7	0.8	1.0	0.4	-0.6	-0.9
Unemployment Rate	%	26.4	25.5	24.7	27.5	28.0	26.9	13.1	11.1	10.0	16.3	14.7	13.9
Current Account	€bn	6.4	7.2	7.4	1.2	3.2	4.0	13.9	14.8	13.7	0.7	3.7	4.2
	% of GDP	0.6	0.7	0.7	0.7	1.9	2.4	8.4	8.7	7.8	0.4	2.2	2.5
General Govt. Balance	€bn	-70.6	-59.6	-48.2	-6.7	-6.4	-4.6	-11.8	-8.6	-5.1	-9.1	-7.6	-5.8
	% of GDP	-6.9	-5.8	-4.6	-3.7	-3.7	-2.7	-7.1	-5.0	-2.9	-5.5	-4.5	-3.4
Primary Balance	% of GDP	-3.4	-2.3	-1.2	0.4	0.4	0.7	-2.8	-0.1	2.1	-1.2	0.0	1.0
General Govt. Debt	% of GDP	93.9	99.1	102.6	176.6	188.3	195.3	124.4	121.4	121.7	129.2	136.3	139.3

F Citi forecast. YoY Year-to-year growth rate. For Ireland we show the GDP deflator rather than the CPI, for Spain fiscal deficits include the effect of financial support for banks in 2013 (€2.8bn). Sources: INE, Haver Analytics, Eurostat and Citi Research forecasts

Netherlands

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Economic activity accelerated noticeably in Q4, up 0.7% QQ after an upwardly revised 0.3% QQ gain in Q3. In particular, we are intrigued by the acceleration in private sector investment for the third successive quarter (5.8% QQ, 6.0% YY in 4Q). This hints at a boom in corporate capex, as we suspect household investment remained muted in light of challenging house price dynamics. We raise our 2014 GDP forecast to 1.0% from 0.5% in January, but still think that deleveraging pressures will limit the Netherland's ability to grow much faster in 2014-15.

Belgium

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GDP growth accelerated in 4Q 2013, with a 0.4% QQ (0.9% YY) outcome beating the 0.3% consensus forecast. While we will have to wait until March for a breakdown of GDP, we estimate that most of the rebound came from a sizeable net export contribution, while the contribution of domestic demand likely turned negative after unusual strength in the prior couple of quarters. Since the flash estimate matched our expectations, we reiterate our call that Belgium GDP will increase by 1.2% in 2014, likely outperforming the euro area average slightly.

Slovakia

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GDP rose by 0.4% QoQ in 4Q13, which lifted the YoY growth to 1.3%, accompanied by a 0.3% QoQ gain in employment. However, while GDP is 3.8% above its pre-crisis peak, employment remains 2.7% below the Q3-08 level. The Q4 figure slightly increases our 2014 GDP growth forecast to 2.0% YoY from 1.9% previously, but this remains a little below the MinFin's 2.3% forecast. The risks look balanced — with a surprise gain in construction activity on one side versus a potential downward GDP revision due to large errors in the BoP data. Given recent polls, it is unlikely in our view that PM Fico will become President in first round on 15 March.

Slovenia

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Our base case remains for an export-driven recovery, despite adverse weather effects in Q1-14. Business confidence continued to improve in February, with a further improvement in export orders. Moreover, capacity use increased as well, which should help support fixed investment activity, although the ongoing credit crunch remains an obstacle. The government has fully recapitalised the two largest banks and started the transfer of bad loans from them, and partly recapitalised the third largest bank. The government is awaiting EC approval to finalise recapitalisation and the transfer of bad loans from the third bank and is awaiting the recapitalisation round in smaller private banks.

Figure 25. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2013-15F

		Netherlands			Belgium			Slovakia			Slovenia		
		2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	-0.8%	1.0%	0.9%	0.2%	1.2%	1.3%	1.0%	2.0%	2.5%	-1.8%	-0.9%	0.8%
Final Domestic Demand	YoY	-2.2	0.9	0.3	-0.1	0.6	1.0	-1.3	1.6	2.1	-3.6	-1.4	1.5
Private Consumption	YoY	-2.1	-0.1	0.4	0.5	0.5	0.7	-0.1	0.9	1.8	-3.4	-2.1	-0.1
Government Consumption	YoY	-0.7	-0.2	0.0	0.7	0.3	0.7	1.0	0.2	1.1	-2.9	-2.0	0.4
Investment (Ex Stocks)	YoY	-4.9	4.9	0.4	-2.6	1.1	2.2	-5.9	4.3	3.9	-3.5	-0.1	1.6
Exports	YoY	1.3	1.0	2.4	2.0	3.7	3.5	4.0	6.1	6.5	3.0	4.3	5.5
Imports	YoY	-0.5	1.5	2.0	1.1	2.8	3.8	2.3	5.6	6.5	-0.4	2.7	5.1
CPI (Average)	YoY	2.6	0.8	1.3	1.1	0.9	1.0	1.4	0.3	1.5	1.8	1.1	1.3
Unemployment Rate	%	8.3	8.6	8.5	8.4	8.3	8.1	14.1	13.3	12.7	10.2	11.0	11.8
Current Account	% of GDP	10.2	9.9	8.9	-1.7	-0.1	0.6	4.2	4.4	3.7	4.1	4.6	4.4
General Govt Balance	% of GDP	-3.8	-3.4	-2.8	-3.1	-2.7	-1.6	-2.7	-3.3	-2.6	-4.9	-13.4	-4.4
Primary Balance	% of GDP	-1.9	-1.4	-0.8	0.4	0.9	1.9	-1.2	-1.8	-1.2	-2.2	-10.5	-1.6
General Govt Debt	% of GDP	74.8	76.4	77.1	102.0	102.8	102.0	54.4	56.9	56.4	59.7	72.8	75.6

F Citi forecast. YoY Year-on-year growth rate. Sources: National sources and Citi Research forecasts

UK

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As last month, we continue to expect above-trend (and above-consensus) GDP growth with below-target (and below-consensus) CPI inflation. We are keeping our growth forecasts at 3.3% for 2014 and 3.2% for 2015, while slightly cutting our CPI inflation forecast to 1.6% for 2014 (from 1.8% last month) — following the soft January data plus recent weakness in import prices. The strong readings for investment in recent quarters highlight that recovery is broadening. Core inflation (which we currently define as inflation excluding food, drink, tobacco, utilities and education) remains weak, at a little below 1½% YoY.

With the recent *Inflation Report*, the MPC has acknowledged that the recent forward guidance framework (7% jobless threshold and the three knockouts) is now dead. In its place, the MPC has announced what it calls the next phase of forward guidance, which has three elements: (1) in deciding when and whether to hike rates, the MPC will steer by a range of capacity use guides, not just the jobless rate; (2) at present, these guides do not point to an immediate need to hike rates; (3) rates are likely to start to rise over the next year or two, but the MPC's current expectation is that tightening will be "gradual" and "limited" — without defining what "gradual" and "limited" mean. We call this "fuzzy guidance", because it is highly flexible and imprecise — giving a vague impression of the direction of policy while allowing the MPC to respond to the data. We stress that there is nothing wrong with such a flexible approach, given uncertainties over exactly how strong the growth outlook is (it could well exceed even our forecast) and how much spare capacity there is. But, many investors seem to want to interpret the MPC's comments as a firm commitment to not hike rates until a certain date, or to hike at only a specified pace (eg 25bp per quarter) and we regard such interpretations as misplaced. If growth is as strong as we expect, capacity use would continue to rise and the MPC would likely start to withdraw stimulus — with the first hike most likely late this year (Q4).

Figure 26. United Kingdom — Economic Forecasts, 2013-2015F

					2013		2014				2015	
		2013F	2014F	2015F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	1.9%	3.3%	3.2%	2.0%	2.8%	3.2%	3.3%	3.3%	3.6%	3.5%	3.3%
	SAAR				3.1	2.7	3.7	3.6	3.3	3.8	3.2	2.9
Domestic Demand	YoY	1.8	2.8	3.5	2.9	2.4	2.8	3.2	2.1	3.1	3.7	3.6
(Incl. Inventories)	SAAR				7.9	-0.1	1.2	4.2	3.4	3.7	3.6	3.6
Private Consumption	YoY	2.2	3.1	3.3	2.5	2.3	2.5	3.2	3.2	3.5	3.3	3.2
	SAAR				3.2	2.1	3.7	3.8	3.2	3.1	3.0	3.7
Government Consumption	YoY	0.7	2.1	-0.2	1.4	2.4	3.5	2.6	2.0	0.6	0.2	-0.1
	SAAR				2.8	5.6	0.9	0.9	0.5	0.0	-0.5	-0.5
Investment	YoY	-2.2	8.0	9.9	-0.7	5.7	7.1	7.2	8.0	9.4	10.3	10.7
	SAAR				6.0	6.6	8.8	7.6	9.1	12.1	12.7	9.0
Exports	YoY	0.5	4.2	5.1	-1.8	-0.1	3.4	1.0	5.3	7.3	5.1	5.3
	SAAR				-11.3	-0.4	14.0	3.2	5.1	7.2	4.9	3.8
Imports	YoY	0.6	3.3	5.9	1.2	0.2	3.2	1.9	2.5	5.5	5.8	6.0
	SAAR				2.9	-5.0	5.1	4.9	5.5	6.7	6.0	5.8
Unemployment Rate	%	7.6	6.7	5.5	7.6	7.2	7.0	6.8	6.6	6.3	6.0	5.7
CPI Inflation	YoY	2.6	1.6	1.9	2.7	2.1	1.7	1.7	1.5	1.6	1.8	1.8
Merch. Trade	£bn	-108.2	-100.5	-103.4								
	% of GDP	-6.6	-5.9	-5.8								
Current Account	£bn	-60.1	-55.4	-61.7								
	% of GDP	-3.7	-3.2	-3.4								
PSNB	£bn FY	-108.2	-89.9	-67.9								
	% of GDP	-6.6	-5.2	-3.7								
General Govt. Balance	% of GDP	-6.8	-5.5	-4.2								
Government Primary Balance		-3.5	-2.0	-0.4								
Public Debt	% of GDP	94.1	96.9	97.3								
Gross Nonoil Trading Profits	YoY	5.4	5.9	2.8								

Note: GDP forecasts not updated for data published 26 February 2014. Fiscal deficit shown excluding financial interventions, RM and APF transfers. F Citi forecast. YoY Year-to-year growth rate. Sources: ONS and Citi Research forecasts

Switzerland

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The Swiss economy continues to perform remarkably well in the face of potential headwinds from the strong CHF and sluggish EMU growth. Business surveys remain buoyant, while house prices (using the IAZI index) are up 3-4% YoY. The period of currency-induced deflation seems to be ending, with CPI inflation around zero, although recent declines in commodity prices may yet produce a few more negative CPI readings in coming months. Against this backdrop, the SNB is unlikely to change policy anytime soon. So far, mild measures to rein in the housing market have proved fairly ineffective in the face of ongoing stimulus from low interest rates.

Sweden

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With signs of recovery in consumer and business surveys and a rise in capacity use in 4Q, we suspect the economy is past the worst. Nevertheless, the economy continues to face sizeable headwinds; Sweden has fairly high export exposure to emerging markets, and hence is vulnerable to EM growth downgrades, while recoveries in key EMU export markets are modest. At the same time, fiscal policy will have to be tightened over time to meet the government's targets. Inflation is likely to remain subdued and the Riksbank's dilemma between hitting the inflation target and longer term instability worries is unlikely to fade anytime soon.

Denmark

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Following several years of stagnation, the Danish economy expanded in 2Q and 3Q, and is set to recover further ahead, driven by rising domestic demand and growing exports. Unemployment is likely to edge lower this year. The impact of fiscal policy on GDP growth is expected to be more or less neutral this year. Thanks to early tax revenue from the option to pay tax on existing capital pension schemes at a reduced rate, public finances will likely only show a minor deficit in 2013-14. We expect the lending rate to stay unchanged at 0.20% in coming quarters, while the DNB is likely to fully shadow an ECB depo cut.

Norway

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A weaker growth pace, deteriorating labour market and cooler housing market suggest that Norway is heading towards a more moderate growth phase with below-trend growth in coming years. Oil investment trends are also set to slow and the business sector will, hence, be unable to lean on impulses from the oil (and housing) sector to the same extent as previously. Also, ongoing erosion in competitiveness suggests that Norway will be unable to benefit fully from global recovery. Meanwhile, an expansionary fiscal policy stance and ongoing low policy rates should ensure a soft landing rather than an abrupt halt to economic activity.

Figure 27. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2013-2015F

		Switzerland			Sweden			Denmark			Norway		
		2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	2.0%	2.0%	2.0%	0.9%	2.3%	2.7%	0.4%	1.2%	1.5%	2.1%	2.2%	2.4%
Final Domestic Demand	YoY	1.9	1.3	2.1	1.1	2.1	2.2	0.6	1.2	1.5	2.5	2.0	2.6
Private Consumption	YoY	2.1	1.2	1.7	1.8	2.3	2.5	0.3	1.1	1.7	2.1	1.9	2.8
Government Consumption	YoY	2.2	1.2	0.7	1.1	1.2	0.8	0.3	0.6	0.7	1.6	2.6	3.0
Investment (Ex Stocks)	YoY	1.1	1.7	4.2	-0.9	3.0	3.5	1.9	2.4	2.2	4.8	1.9	1.7
Exports	YoY	2.2	3.4	4.0	-1.5	2.4	4.6	1.1	2.7	3.1	-0.5	0.8	2.3
Imports	YoY	0.4	2.3	5.0	-2.2	2.2	4.2	2.7	3.2	3.3	2.2	1.2	2.3
CPI (Average)	YoY	-0.2	-0.2	0.9	0.0	0.5	1.8	0.8	1.5	1.7	2.1	2.0	2.1
Unemployment Rate	%	3.1	2.7	2.3	8.0	7.8	7.5	7.0	6.9	6.7	3.5	3.7	3.8
Current Account	% of GDP	12.2	12.9	12.7	6.2	5.9	5.6	7.2	6.7	5.7	11.9	12.2	12.5
General Govt Balance	% of GDP	0.2	0.6	0.8	-1.4	-1.6	-1.0	-0.7	-1.5	-2.4	11.3	11.8	11.0
General Govt Debt	% of GDP	48.2	46.3	45.1	39.5	39.9	39.2	45.6	45.9	46.9	NA	NA	NA

[a] For Norway, mainland GDP. F Citi forecast. YoY Year-on-year growth rate. Sources: National sources and Citi Research forecasts

Canada

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The Canadian economy continued to expand at a respectable, though moderate pace at the close of 2013. Unfortunately, strong output in October and November was partially offset by extreme weather conditions in December that spoiled holiday sales and stunted business activity. The inhospitable Canada/US winter probably is impacting 1Q 2014 output as well. Hence, we slightly downgrade our 2014 growth forecast on bad weather-effects. More intense fiscal drag and softer EM growth will also weigh. Key supports to the expansion continue to include diminished tail risks abroad, reduced fiscal restraint in the US, the cheaper CAD, and North American energy infrastructure expansion. Internal demand rotation, commodity price volatility, and domestic competitiveness impediments likely will remain headwinds.

Consumer inflation gauges remain below the Bank of Canada's 2% target, but the outlook has brightened somewhat recently. January total and core CPI inflation prints were firmer than expected and there are increasing signs that the factors which dampened inflation from mid-2011 through 2013 are relenting. Policymakers have expressed reassurance over recent inflation developments. Slack and intense retail store competition remain the most persistent weights on consumer prices, but there is growing likelihood that total CPI inflation will converge on the target by the end of 2015, when aggregate supply and demand return to balance. Hence, the BoC probably will keep the overnight rate target fixed at 1.00% with a neutral bias until mid-2015.

Risks to the inflation outlook are two-sided, but roughly balanced. Upside risks include stronger-than-anticipated Advanced Economy growth; greater momentum in domestic demand amid improving business confidence; and sustained domestic housing market strength that reinforces existing imbalances. Downside risks include setbacks in the Euro Area recovery; weaker-than-expected global (especially EM) demand that restrains Canadian exports; and domestic consumer retrenchment linked to household debt and/or disorderly unwind of housing market activity.

Figure 28. Canada — Economic Forecast, 2013-2015F

					2013F		2014F				2015F	
		2013F	2014F	2015F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	1.8%	2.3%	2.7%	1.9%	2.4%	2.2%	2.4%	2.3%	2.3%	2.6%	2.6%
	SAAR				2.7	2.8	1.5	2.6	2.5	2.4	2.8	2.7
Final Domestic Demand	YoY	1.6	2.0	2.1	1.7	1.8	2.1	2.1	2.1	1.9	2.1	2.1
	SAAR				1.8	2.7	1.6	2.0	2.1	1.9	2.3	2.2
Private Consumption	YoY	2.2	2.4	2.4	2.3	2.3	2.5	2.2	2.4	2.3	2.4	2.4
	SAAR				2.2	2.3	2.0	2.5	2.7	2.1	2.5	2.5
Government Spending	YoY	0.7	0.1	0.3	0.7	0.5	0.5	0.2	0.0	-0.4	0.0	0.2
	SAAR				0.8	1.4	-0.8	-0.5	-0.2	0.1	0.5	0.5
Private Fixed Investment	YoY	1.0	3.6	3.4	1.1	1.8	3.0	3.8	4.1	3.5	3.6	3.4
	SAAR				2.3	5.6	3.7	3.8	3.2	3.4	3.8	3.2
Exports	YoY	1.1	2.0	4.9	1.7	1.3	0.5	0.8	2.5	4.0	4.7	4.9
	SAAR				-2.0	-0.9	1.8	4.5	4.8	4.7	4.9	5.1
Imports	YoY	0.9	2.1	3.2	-0.1	1.4	1.3	1.6	2.8	2.8	3.0	3.2
	SAAR				-1.4	2.8	2.5	2.5	3.3	3.0	3.3	3.3
CPI	YoY	0.9	1.7	1.8	1.1	0.9	1.2	1.8	1.8	2.1	1.8	1.7
Core CPI	YoY	1.2	1.5	1.9	1.3	1.2	1.2	1.2	1.5	1.9	1.8	1.9
Unemployment Rate	%	7.1	6.8	6.5	7.1	7.0	6.9	6.9	6.7	6.8	6.7	6.6
Current Account Balance	C$bn	-61.8	-48.7	-49.4	-61.9	-68.4	-47.9	-51.2	-45.5	-50.2	-49.4	-53.1
	% of GDP	-3.3	-2.5	-2.4	-3.3	-3.6	-2.5	-2.6	-2.3	-2.5	-2.5	-2.6
Net Exports (Pct. Contrib.)		0.0	-0.1	0.4	-0.2	-1.2	-0.3	0.5	0.3	0.4	0.4	0.4
Inventories (Pct. Contrib.)		0.2	0.3	0.1	1.2	0.9	0.1	0.0	0.0	0.1	0.1	0.1
Budget Balance (Fiscal Year)	% of GDP	-0.9	-0.1	0.3								
Federal Budget Debt	% of GDP	32.6	31.4	29.7								
General Govt. Debt	% of GDP	95.8	95.4	92.5								

F Citi forecast. YoY Year-to-year percent change. SAAR Seasonally adjusted annual rate. Sources: Statistics Canada, and Citi Research.

Australia

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Partial economic data for Q1 continue to validate an outlook for growth this year that is consistent with our forecast of below trend. The exception to this is the Q4-2013 CPI data which surprised on the upside, forcing the RBA to lift its inflation forecasts by an average of 25bps. We suspect that the Q1-2014 quarterly result will also be strong. However, we do not expect the RBA to react with higher interest rates. Soft demand growth should anchor domestic demand-driven inflation, helping the RBA look through seasonal, regulated price rises in the quarter and ongoing food inflation from the drought. The labour market is another reason for downplaying the pick-up in inflation. Higher unemployment and slower wage growth will limit the potential for an increase in broader inflationary expectations. Consequently, we continue to see a period of stability in interest rates from the RBA extending through until early next year, by when demand should be picking up more strongly.

New Zealand

At the January OCR review, the RBNZ effectively signaled that the process of interest rates normalisation would commence soon. Economic activity is being boosted by the Canterbury rebuild, strong migration and nominal income gains from the rising terms of trade. But the most pressing reason to increase rates is to cool the housing boom, with Auckland house prices in particular rising at an unsustainable pace. While LVR restrictions have reduced the amount of highly leveraged borrowing, other borrowing has picked up. We expect the RBNZ to increase the OCR on March 13 by 25bps with a total of 125bps of hikes this year. Non-reconstruction based sectors of the economy are likely to grow at a below trend pace, which should help keep inflation near the RBNZ's target of 2.0% through the cycle. The exchange rate is likely to remain elevated rather than decline, which would keep the export base narrow and focused on a few economies, namely China and Australia.

Figure 29. Australia and New Zealand — Economic Forecast, 2013-2015F

	Australia			New Zealand		
	2013F	2014F	2015F	2013F	2014F	2015F
Real GDP[a]	2.4%	2.9%	2.8%	2.7%	3.2%	2.7%
Real GDP (4Q versus 4Q)	2.5	2.9	2.8	3.0	3.1	2.1
Real Final Domestic Demand	0.9	2.3	2.2	4.4	5.2	4.0
Private Consumption	1.8	2.4	2.8	3.0	3.1	3.0
Govt. Current & Capital Spending[b]	1.2	2.3	2.4	1.2	3.0	2.8
Housing Investment	1.5	8.0	5.5	18.8	16.0	14.4
Business Investment[c]	0.9	-2.0	-1.3	9.1	11.4	5.6
Exports of Goods & Services	6.7	7.2	7.4	-0.4	1.5	2.5
Imports of Goods & Services	-2.8	2.6	4.5	6.7	7.6	4.7
CPI	2.4	3.2	2.1	1.1	2.1	2.2
CPI (4Q versus 4Q)	2.7	2.9	2.1	1.6	2.1	2.3
Unemployment	5.8	6.0	6.0	6.0	5.3	5.0
Merch. Trade, BOP (Local Currency, bn)	3.2	3.3	1.4	1.4	-0.1	-2.5
Current Account, (Local Currency, bn)	-46.1	-49.0	-53.3	-7.2	-9.6	-13.0
Percent of GDP	-3.0	-3.0	-3.1	-3.3	-4.2	-5.4
Budget Balance[d] (Local Currency, bn)	-18.6	-48.5	-35.7	-6.4	-3.8	-0.9
Percent of GDP	-1.2	-3.0	-2.1	-2.9	-1.6	-0.4
General Govt. Debt (% of GDP)[e]	30.2	32.1	33.5	39.8	39.0	36.3
Gross Operating Surplus	1.6	5.7	6.6	NA	NA	NA

BOP Balance of payments basis. CPI Consumer Price Index. F Citi forecast. NA Not available. [a]Averaged-based GDP in Australia and New Zealand. [b] In New Zealand excludes capital spending. [c] In New Zealand includes government capital spending. [d] Fiscal year ending June. Australia's underlying cash balance. [e] Australia and New Zealand Budget definition and forecasts. Sources: ABS, StatsNZ, NZIER and Citi Research forecasts

China

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Economic activity appears to have softened further at the beginning of the year. Data suffer from holiday-related distortions, and the NBS does not publish IP, FAI and retail sales data for January. However, both the official and HSBC PMI declined relative to 4Q 2013, due to weaker demand (especially domestic demand) and production. Our credit conditions index, which normally leads GDP growth by about 6 months, suggests YoY GDP growth may slow further in 1H from 7.7% in 4Q-13. On the other hand, inflation remained low in January, with CPI inflation staying at 2.5% YoY and PPI deflation intensifying to -1.6% YoY. The slowing economy and subdued inflation argue against further monetary tightening.

Stronger external demand and steady credit growth will likely cushion the slowdown. While data tend to be volatile early in the year, and we cannot rule out export over-invoicing amid RMB appreciation expectations, there are signs that China's exports are benefiting from the recent pickup of growth in advanced economies. In addition, new RMB lending and total social financing both beat market expectations in January, partly reflecting seasonal patterns but also suggesting still strong demand for credit. The weather-related soft patch in the US may temporarily set back export growth in the short run, but with US and EU growth expected to pick up by more than 1ppt this year, we expect net exports to contribute positively to GDP growth.

The government may not loosen policy unless the bottom-line is challenged. The annual NPC meetings will be convened starting from March 5, during which economic targets and the reform agenda for 2014 will be set. We think the government will focus on economic reforms and tolerate some slowdown as long as growth stays above 7% YoY and there is no immediate systemic financial risk. The budget deficit probably will stay around 2% of GDP, but extra-budgetary activity will likely be less expansionary since the central government has made it a priority to contain local government debt. The money growth target is likely to be set at 13%. The recent PBOC report and open market operations (withdrawing liquidity) suggest the central bank will likely maintain a neutral monetary policy with a moderate tightening bias, due to concerns over financial risks associated with rising debt levels. We maintain our annual growth forecast at 7.3% on less accommodative macro policies.

Figure 30. China — Economic Forecasts, 2013-2015F

					2013F		2014F				2015F	
		2013	2014F	2015F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	7.7%	7.3%	7.0%	7.8%	7.7%	7.6%	7.4%	7.0%	7.2%	7.3%	7.1%
Real Final Domestic Demand	YoY	8.3	7.3	7.1								
Consumption	YoY	7.8	7.1	7.6								
Fixed Capital Formation	YoY	8.9	7.4	6.6								
Industrial Production	YoY	9.7	9.2	8.6	10.1	10.0	9.8	9.4	8.6	9.0	9.2	8.8
Exports	YoY	7.9	6.9	6.7	3.9	7.5	3.2	7.0	8.0	9.0	8.0	7.0
Imports	YoY	7.3	5.8	7.3	8.4	7.1	7.5	6.0	5.0	5.0	6.0	7.0
Merchandise Trade Balance	$bn	260	299	307	62	91	23	75	81	119	35	81
FX Reserves	$bn	3,821	4,020	4,237	3,663	3,821	3,815	3,865	3,921	4,020	4,025	4,081
Current Account	% of GDP	2.2	2.0	1.5								
Fiscal Balance	% of GDP	-2.0	-2.0	-1.5								
General Govt. Debt*	% of GDP	53.8	53.6	52.3								
Urban Unemployment Rate	%	4.1	4.2	4.3	4.0	4.1	4.2	4.2	4.2	4.3	4.3	4.3
CPI	YoY	2.6	3.2	3.7	2.8	2.9	2.7	3.1	3.2	3.7	3.7	3.6
Exchange Rate (end period)	CNY/$	6.05	6.00	6.00	6.12	6.05	6.04	6.02	6.01	6.00	6.00	6.00
1-Yr Deposit Rate (end period)	%	3.00	3.25	3.75	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.75

Note: F Citi forecast. E Citi estimate. YoY Year-to-year percent change. SAAR Seasonally adjusted annual rate. * General Govt. Debt includes the debt of central, local government and Ministry of Railway. Sources: Haver Analytics and Citi Research forecasts

India

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As highlighted during our recent Macro Day, the delta change across the macro variables — growth, inflation and the deficits — is positive. However, challenges remain: (1) While growth has bottomed, the shallow recovery is dependent on 'unlocking investments' and managing NPAs. (2) Inflation may have peaked out, but structural factors, especially on the food front need to be tackled. (3) There was consensus that the worst of CAD is over with the currency now closer to fairly valued.

The upcoming elections are a key event to watch. Political pundits at our Investor Conference suggested recent opinion polls indicate the BJP-led alliance is gaining ground (perhaps to 220+ seats). However, there are uncertainties from the prospect that anti-incumbent votes could split. All in all, a stable government is crucial, as the business cycle remains interlinked with politics

On the monetary front, the RBI surprised markets by raising the repo rate by 25bps to 8%. While this was a close call, the decision may have been tilted by the partial acceptance of the Urjit Patel Committee Report — i.e increasing focus on CPI and recent EM volatility. The timing of the repo hike was a bit of a surprise, and we had expected a 25bps hike in 4QFY14. Going forward, we maintain our view that rates are likely to stay higher for longer and expect an extended pause through 2014. Growth in FY14 has been pegged at 4.9%, in line with expectations, led by agriculture at 4.6%, services up 6.9% and industry at 0.7%. Going forward in FY15, we maintain our 5.6% estimate, but key to watch are (1) Chances of an El-Nino event and (2) Project implementation, which rests on a stable election outcome.

On the fiscal front, given the upcoming elections, the government presented an "Interim Budget". A full budget will be presented by the new government, most likely in June. Contrary to fears, there have been "no" populist schemes, but a look at the arithmetic shows loads of optimism in both the FY14 deficit (now pegged at 4.6% of GDP) and the FY15 estimate (4.1%). Lastly, the good news on the external front continues. The trade deficit has remained at ~US$10bn levels for the last 6-8 months and we expect the FY14 CAD at about US$36.8bn, 2.0% of GDP. Going forward for FY15, the resumption of iron ore exports and potentially lower coal/metal scrap imports should partially offset a pick-up in gold and/or capital goods and we expect the CAD to US$46.7bn or 2.3% of GDP. Despite an improved CAD, we expect the INR to stay in the 60-63 range nearterm due to (1) EM risk aversion and (2) Dip in forward adjusted reserves.

Figure 31. India — Economic Forecasts, FY2013/14-2015/16F

		FY 13/14F	FY 14/15F	FY 15/16F
Real GDP	YoY	4.9%	5.6%	6.2%
Final Domestic Demand	YoY	3.0	4.6	6.3
Private Consumption	YoY	4.1	5.5	7.0
Fixed Investment	YoY	0.2	2.5	5.0
Exports	YoY	8.0	11.0	9.0
Imports	YoY	-1.6	9.5	9.3
Wholesale Price Index	YoY	6.0	5.5	5.0
Consumer Price Index	YoY	9.6	8.3	7.5
Current Account	US$ bn	-37	-47	-58
	% of GDP	-2.0	-2.3	-2.2
Consolidated Fiscal Balance	% of GDP	-6.9	-6.7	-6.5
Centre Fiscal Balance	% of GDP	-4.6	-4.1	-4.0
US Dollar Exchange Rate	Average	61.8	64.1	63.1

Sources: Haver Analytics and Citi Research forecasts

Korea

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Recent data have been mixed. Exports slowed in January, with sluggish car sales and shipbuilding on top of the loss of working days due to Lunar New Year holidays, despite continued upswings in IT and auto parts. However, February exports likely normalised as seasonality effects and the temporary setback in shipbuilding deliveries in January unwind. In the labour market, jobs increased rapidly in January, by 207K MoM sa and 705K YoY, on the back of steady and strong gains in the services sector — such as retail sales, business services, and accommodations business — as well as further modest job growth in the manufacturing sector. However, the jobless rate inched up by 0.1%p to 3.2%sa as job-seeking activities increased with better prospects for economic condition. Meanwhile, at the February meeting, the MPC decided unanimously to hold the policy rate steady, maintaining its view that the economy remains on the expected recovery path amidst benign inflation, despite recent market volatility. We expect headline inflation to rise close to 3% YoY in 2H alongside price hikes for services and industrial goods on top of base effects. The BoK, however, will probably delay tightening until next year to support economic recovery and to ease KRW strength.

Indonesia

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Although GDP growth nudged up to 5.8% YoY in 4Q13, we think that our FY14 GDP growth forecast (5.3%) is still valid. Domestic demand has been growing close to 5% and the commodity-driven export burst in 4Q13 may not recur. Going forward, trade and current account numbers in 1Q may not be as positive as in the prior quarter. We expect the current account deficit to rebound towards 2.5% GDP in 1Q from 2% in 4Q. However the longer-term trajectory should still be a decline, given slowdowns in investment and capital goods imports. Policymakers have not easily turned dovish following the recent data improvements and have shown a strong commitment so far to restoring transparency and liquidity in the FX interbank market. We sense that this has led to increased confidence among investors. However it is not a clear sky scenario yet, in our view. The data improvement has been driven more by cyclical factors (i.e. demand slowdown) and less so by structural factors (e.g. reforms). Downside risks on China growth and the recent decline in coal prices should be closely watched. The finance ministry is also pushing for fuel price adjustment this year, which would be a positive for the fiscal position but provides upside on inflation in the near term.

Figure 32. Korea and Indonesia — Economic Forecasts, 2013-2015F

		Korea			Indonesia		
		2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	2.8%	3.7%	3.9%	5.8%	5.3%	5.5%
Final Domestic Demand	YoY	2.6	3.1	3.3	5.1	4.9	4.5
Private Consumption	YoY	1.9	2.9	3.2	5.3	5.1	4.4
Fixed Investment	YoY	3.8	4.6	3.7	4.7	3.5	6.1
Exports	YoY	4.3	5.8	7.7	5.3	4.0	5.7
Imports	YoY	3.5	5.2	7.4	1.2	2.3	3.1
Consumer Price Index	YoY	1.3	2.1	3.1	6.4	6.5	5.7
Unemployment Rate	%	3.1	3.1	3.1	6.3	6.5	6.3
Current Account	US$ bn	70.7	53.6	46.5	-28.5	-20.9	-19.3
	% of GDP	5.9	4.1	3.3	-3.3	-2.5	-2.1
Fiscal Balance	% of GDP	0.9	1.0	1.6	-2.2	-2.2	-1.7
US Dollar Exchange Rate	Average	1095	1071	1062	10449	12108	12083

Sources: Haver Analytics and Citi Research forecasts

Hong Kong

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The liquidity situation remains largely stable, despite the choppy equity market caused by the commencement of Fed tapering and renewed signs of China slowdown. We expect loan growth of about 11% YoY in 2014, slowing from last year's 16% pace, in preparation for the expected rise in interest rates. We think long-end EFN yields are likely climb gradually in 2014, similar to US yields. Consumer prices are likely to rise temporarily during the festive period. Meanwhile, property prices continue to adjust downwards as primary market supply is weighing on secondary home prices. Official determination to rely on prudential measures to cool the property market, while increasing land/flat supply as fast as possible, appears unaltered. The Budget Speech confirmed the strong expansionary fiscal bias, with more recurring commitment to tackle poverty and help the needy.

Singapore

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4Q GDP was revised up to +5.5% YoY, +6.1% QoQ SAAR (3Q: 5.8% YoY, +0.3% QoQ SAAR). With growth likely to fall in the upper half of the official forecast range of 2-4% (Citi: 3.5%), we see the positive output gap persisting. However, the likely upward creep in core inflation to around 2.5% YoY, driven by wage gains, should be consistent with MAS expectations. Moreover, there are signs of some slowdown in domestically-oriented sectors (including some related to property and household deleveraging) and other FX-sensitive tradeables sectors (eg tourism). On balance, we see no changes to monetary policy in April 2014, especially with the 2014 Budget still setting an expansionary fiscal stance — with planned basic and overall fiscal balance deficits of 0.2% and 0.3% of GDP respectively.

Taiwan

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The economic rebound was confirmed in the 4Q GDP final release, with growth at 2.95% YoY vs 1.31% YoY in 3Q. However, trade performance remains disappointing as of January (although affected by seasonality effects), while contagion effects from the Chinese slowdown could weigh on Taiwanese exports near term — especially since Q1 is typically the low season for tech exports. Recent TWD depreciation reflects trade underperformance and we expect USD strength in medium term could sustain depreciation pressures. The ruling party is prioritising the passage of the Free Economic Pilot Zone regulations and the implementation of ECFA for services in this Legislative Yuan Session (which ends in mid-March) to revamp the economy. Foreign investors' inflows could intensify if these policies are passed, but multiple key political oppositions are expected. Benign inflation will likely allow CBC to only hike rates in 2Q-15.

Figure 33. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2013-2015F

		Hong Kong			Singapore			Taiwan		
		2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	3.0%	3.4%	3.8%	4.1%	3.5%	4.0%	2.1%	3.2%	3.8%
Final Domestic Demand	YoY	3.3	2.1	2.4	1.9	3.0	2.1	2.2	1.8	2.4
Private Consumption	YoY	4.1	2.0	2.4	2.7	2.0	2.0	1.8	1.6	2.8
Fixed Investment	YoY	1.8	2.6	2.8	-2.6	1.3	1.0	5.3	2.8	3.4
Exports	YoY	7.0	5.2	6.2	3.6	3.5	3.2	3.8	4.6	6.2
Imports	YoY	7.2	4.8	5.7	3.0	2.6	2.8	4.0	3.9	5.2
CPI	YoY	4.3	3.6	4.0	2.4	1.8	2.3	0.8	1.3	1.9
Unemployment Rate	%	3.4	3.2	3.1	1.9	1.8	1.8	4.2	4.0	3.9
Current Account	US$ bn	7.7	9.2	12.0	54.4	55.3	59.2	57.4	56.4	56.2
	% of GDP	2.8	3.1	3.9	18.4	18.0	18.0	11.7	11.0	10.2
Fiscal Balance	% of GDP	1.3	1.3	0.7	1.1	-0.3	0.2	-1.5	-1.4	-0.8
US Dollar Exchange Rate	Average	7.76	7.76	7.75	1.25	1.29	1.28	29.68	30.39	29.97

Sources: Haver Analytics and Citi Research forecasts

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Preliminary estimates from Rosstat point to 4Q13 GDP growth of 1.3%YoY (1.2% in 3Q13), bringing full-year 2013 GDP to 1.3% (2012 GDP of 3.4%). The slowdown was driven by weakness in investment and net exports, with consumption providing the only bright spot. We think 3Q13 marked the bottom of the cycle, with a fragile recovery starting to take place from 4Q13 and firming up in 2014. We forecast 2014 GDP growth of 2.6%. This should be driven by a recovery in investment and net exports, with support from still-strong, but moderating, consumption. Industrial managers see the government's decision to freeze tariff growth for industrial users next year as a key business positive, while the recent pickup of GDP growth in Europe should provide a useful boost to exports. We anticipate consumption growth will continue to perform well, although the central bank's recent efforts to cool retail loan growth may pose a risk to consumption and GDP into 2014. The weaker currency should also give a welcome fillip to economic performance. Medium-term growth prospects remain only slightly better, due to adverse demographics and lack of incentives for enhancing capital accumulation and productivity growth. In a refreshing, if, in our view, belated, recognition of these structural impediments, in November 2013 the Ministry of Economy downgraded its GDP forecasts for 2013-2030 to an average of 2.8% YoY from 4.3% previously. Structural challenges pose medium-term risks for the currency as the current account is likely to gradually transition from surplus to deficit in the next couple of years.

Turkey

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The CBT's bold rate hike at the emergency meeting provided some respite to Turkish assets — the lira in particular. Since the CBT's move on January 28, we observe an improvement in the relative performance of the lira and the country's risk premium. In our view, the CBT's decision to normalise monetary policy and keep money market rates closer to the upper band of the interest rate corridor (12%) instead of the one-week repo rate (10%) has also played an important role in supporting Turkish assets. Nonetheless, we believe that policymakers face a challenging macroeconomic backdrop characterised by frail growth prospects, above-target inflation and tighter external financing conditions. The unwinding of the unconventional monetary policy actions by the advanced economy central banks and a highly charged political environment ahead of the upcoming elections further complicate the picture. Against this backdrop, we believe that the need for coherent macroeconomic/financial policies and a revival of structural reforms to bolster policy credibility cannot be emphasised enough.

Figure 34. Russia and Turkey — Economic Forecast, 2013-2015F

		Russia			Turkey		
		2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	1.3%	2.6%	2.7%	4.0%	2.3%	3.5%
Final Domestic Demand	YoY	2.4	3.5	3.7	4.5	-3.2	3.4
Private Consumption	YoY	4.3	4.2	4.1	4.6	-1.5	3.2
Fixed Investment	YoY	-0.3	3.8	4.5	4.4	-11.7	4.0
Exports	YoY	1.5	2.0	2.1	1.9	9.6	4.4
Imports	YoY	5.5	4.5	7.2	8.1	-10.4	4.0
CPI	YoY	6.8	5.7	4.9	7.5	7.7	7.4
Unemployment Rate	%	5.5	5.7	5.8	9.8	9.5	9.5
Current Account	US$ bn	34.0	24.0	18.6	-65.0	-38.1	-41.5
	% of GDP	1.6	1.2	0.9	-7.8	-5.2	-5.3
Fiscal Balance	% of GDP	-2.0	-4.3	-4.9	-1.2	-2.8	-3.2
US Dollar Exchange Rate	Average	31.9	37.4	38.1	1.91	2.36	2.46

Sources: Haver Analytics and Citi Research forecasts

Hungary

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4Q13 GDP surprised to the upside, likely helped by external factors. The consumption recovery seems sluggish, leaving EU-funded infrastructure investment as the driver of domestic demand. We have left our 2014 GDP forecast unchanged on better external trends but weaker domestic outlook. The inflation outlook is weakening further on new rounds of utility price cuts (implemented in three steps this year). These are likely to keep headline CPI below the 3% target until 2Q15. The structure of growth remains supportive to Hungary's external surplus which we expect to persist. Election risks seem muted, with no sign of sizeable fiscal risks or policy changes this year. Based on the soft inflation outlook and weak domestic growth, the NBH remains dovish, but may be understating roll-over risks related to Hungary's large external debt amidst global outflows from EM. This factor may deliver further FX weakness in our view, and increase the risk of accelerating outflows from local bond markets — potentially leading to further steepening in the yield curve. The MPC's policy actions probably will depend primarily on asset trends in coming months, in our view. Further rate reduction towards 2.50% may follow if markets consolidate. But, we suspect that global conditions may prompt the NBH to reverse about 100bp of recent cuts in 4Q14 or earlier.

Poland

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4Q GDP growth surprised to the downside at 2.7% YoY, though still much stronger than 1.9% in 3Q, confirming a gradual recovery scenario. We expect a further acceleration to above-consensus growth of 3.4% in 2014. Our scenario is supported by the jump in the January PMI (to 55.4 pts) and acceleration in industrial output growth to 6.3% YoY sa (highest in 2 years). We expect domestic demand to be the main engine of growth, driven by investment and private consumption. While the January employment data surprised to the downside, this was probably mainly due to technical issues in CSO data sampling. The underlying trend still points to gradual recovery in labour demand. Private consumption will be also backed by a slow increase in inflation, higher consumer loan growth and improving confidence guides. Taking into account our GDP growth forecast and the likely gradual decline of real interest rates in coming months, the MPC will probably consider its first rate hikes by year-end. In February, pension assets of 9% of GDP were transferred to the public sector, cutting public debt towards 47% of GDP and turning the fiscal deficit into surplus. In our view, the drop of Poland's weight in bond indices and portfolio rebalancing could still bring some bond sales to market. The zloty should be less vulnerable to risk aversion than in the past due to the historically-low current account deficit, which is fully covered by inflow of long-term capital.

Figure 35. Hungary and Poland — Economic Forecasts, 2013-2015F

		Hungary			Poland		
		2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	1.1%	1.9%	1.5%	1.6%	3.4%	3.6%
Final Domestic Demand	YoY	1.3	1.5	0.5	0.7	3.0	3.6
Private Consumption	YoY	-0.5	0.7	1.0	0.8	2.7	3.2
Fixed Investment	YoY	3.0	3.1	0.0	-0.4	4.7	6.0
Exports	YoY	4.4	4.5	4.6	3.9	5.9	6.5
Imports	YoY	4.5	4.2	4.1	0.0	6.7	7.5
CPI	YoY	1.7	0.8	2.9	2.6	1.5	2.8
Unemployment Rate	%	9.1	8.6	8.5	13.4	12.5	11.7
Current Account	US$ bn	2.7	3.2	2.7	-7.8	-13.9	-21.7
	% of GDP	2.0	2.5	2.0	-1.5	-2.5	-3.6
Fiscal Balance	% of GDP	-2.6	-2.9	-2.9	-4.2	5.7	-2.3
Euro Exchange Rate	Average	297	326	332	4.20	4.23	4.20

Sources: Haver Analytics and Citi Research forecasts

Czech Republic

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There are three main things in our view to watch: i) stronger–than–expected GDP growth of 1.6%QoQ in 4Q13; ii) weaker CZK due to our weaker EM FX forecast; iii) a new government with an old fiscal policy. For the time being, we keep our 2014 GDP growth forecast at 1.9%YoY (below CNB's 2.2%), though the better-than-expected 4Q GDP limited the 2013 decline to -1.1%YoY from our forecast of a 1.4% decline. There are several cross-currents at work: foreign demand is gradually picking up, fixed investment was stronger in 4Q13, but 4Q GDP was also boosted by front-loaded and tax-driven tobacco purchases. Therefore, we expect the 4Q figure will be partly offset by a weaker reading for 1Q14 (-0.5%QoQ), followed by an average 0.6% growth in 2Q-4Q14. We will wait for 6 March (when GDP details will be released) before assessing whether any larger change in our forecast is justified. The government plans to keep fiscal deficits around 3% of GDP (and possibly larger if there is another recession), which suggests a widening of the structural deficit to 2-3% of GDP (if the forecast of 2-3% GDP growth in 2015-16 materialises) from 1.2% in 2013. This does not seem to be in line with its medium-term objective to narrow the structural fiscal deficit to around 0-1% of GDP, and fiscal policy is likely to represent a hurdle to any nearterm ideas of euro adoption. We expect the CNB to exit its FX intervention strategy in 2Q15, but potential weakness in the koruna creates risks of earlier exit.

Romania

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At 5.2% YoY, the flash estimate for the 4Q GDP data surprised on the upside, pushing 2013 GDP growth to 3.5%. While the preliminary detailed data will be released on March 5, strong agriculture and industry (thanks to robust exports) are widely expected to be the key drivers of the 4Q GDP print. However, the absence of a meaningful pick up in sentiment indicators capturing domestic demand casts doubt on the sustainability of the growth momentum. Turning to monetary policy — contrary to our expectations — the NBR cut its policy rate by 25bp to 3.50% at the second Board Meeting of the year. In our view, it is hard to reconcile the recent easing with the recent upward revision of the NBR's year-end forecast to 3.5% from 3.0%. Since money market rates have been fluctuating below the policy rate, the current monetary policy stance is even more accommodative than the policy rate suggests. Consequently, we believe that the issue of whether Romania's interest rate provides an adequate buffer is likely to receive greater attention going forward.

Figure 36. Czech Republic and Romania — Economic Forecasts, 2013-2015F

		Czech Republic			Romania		
		2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	-1.1%	1.9%	2.4%	3.4%	3.0%	3.3%
Final Domestic Demand	YoY	-1.1	1.5	2.2	-0.7	1.9	3.3
Private Consumption	YoY	-0.5	0.9	0.6	0.6	1.6	3.5
Fixed Investment	YoY	-4.9	3.5	6.4	-4.0	3.2	3.5
Exports	YoY	-0.1	5.2	7.1	14.6	5.5	4.5
Imports	YoY	0.0	6.1	7.1	2.5	3.0	4.0
CPI	YoY	1.4	1.3	2.3	4.0	2.4	3.4
Unemployment Rate	%	7.0	6.4	5.5	5.3	5.5	5.5
Current Account	US$ bn	-1.3	-0.1	-0.9	-2.0	-5.1	-9.4
	% of GDP	-0.7	0.0	-0.4	-1.1	-2.5	-4.2
Fiscal Balance	% of GDP	-2.4	-2.9	-2.9	-2.5	-2.3	-2.3
EURCZK, USDRON	Average	26.0	27.5	27.0	3.3	3.3	3.2

Sources: Haver Analytics and Citi Research forecasts

Brazil

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We reduced our GDP growth forecasts after disappointing December industrial production and retail sales data. We now expect GDP to grow 1.3% in 2014, below our 2.1% growth estimate for 2013. Regarding monetary policy, we expect another 25bps hike in February, driving interest rates to 10.75%. We continue to expect the Central Bank to resume the tightening cycle in 2015, increasing the Selic rate by further 125bps (to 12%) in 1H15. The tighter monetary policy stance is not enough to entirely offset the weaker BRL. Hence, yearend CPI inflation will increase to 6.1% in 2014 and 5.8% in 2015, both above the mid-point target of 4.5% but still inside the target band (until 6.5%). In terms of fiscal policy, we don't expect a significant adjustment this year and, thus, the primary surplus should remain below the 2013 level (1.9% of GDP). On the external accounts, we expect the current account deficit to remain roughly stable around USD80bn, despite an improvement in the trade balance reflecting the weaker BRL and increased global growth. Finally, President Dilma Rousseff's popularity is still at a level that suggests her reelection is the most likely outcome in the October elections.

Mexico

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GDP grew by 1.1% in 2013, almost as we expected (1.2%), as growth weakened in 4Q 13. The main driver was a further deterioration in industrial production. We think that industrial activity growth prints are likely to come relatively soft in 1Q14, reflecting bad weather conditions in the US, which will affect Mexican exports, and a somewhat slower recovery in local demand. Provided that public spending — which is apparently recovering according to official data — helps to cushion these impacts, and that the softer US manufacturing activity is indeed temporary, we think the rebound in coming quarters could fully compensate for the hiatus during the first semester. Thus, we keep our 2014 GDP growth forecast at 3.8%. Meanwhile, headline annual inflation rebounded to 4.5% in January, up from 4.0% in December, as a consequence of the first-round effects from the new taxes. Despite the rise in inflation, we see quite limited second-round effects stemming from the tax changes and, consequently, we have revised down our end-year 2014 inflation forecast from 4.4% to 4.2%, near the upper limit of Banxico's target range (4%). A negative output gap, coupled with our inflation forecasts, leads us to reiterate that Banxico will stay on hold until mid-2015. On the political front, Congress has already received the proposal of enabling legislation on the competition reform and this will be followed by other pieces of secondary legislation in coming weeks, such as those related to the energy reform, which is in its final stages.

Figure 37. Brazil and Mexico — Economic Forecasts, 2013-2015F

		Brazil			Mexico		
		2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	2.1%	1.3%	1.8%	1.1%	3.8%	4.0%
Final Domestic Demand	YoY	2.9	1.6	1.7	1.3	3.9	4.4
Private Consumption	YoY	2.1	2.3	1.9	2.5	4.0	4.1
Fixed Investment	YoY	6.2	0.1	1.1	-2.0	5.1	7.0
Exports	YoY	1.3	3.2	6.8	0.4	8.4	8.7
Imports	YoY	8.9	4.1	4.4	1.9	8.3	8.6
CPI	YoY	6.2	6.0	6.0	3.8	4.3	3.7
Unemployment Rate	%	5.5	5.8	6.0	5.0	4.8	4.8
Current Account	US$ bn	-81.4	-80.4	-81.7	-21.1	-26.2	-24.6
	% of GDP	-3.7	-3.9	-3.8	-1.7	-2.0	-1.7
Fiscal Balance	% of GDP	-3.3	-3.7	-2.8	-2.4	-3.5	-2.5
US Dollar Exchange Rate	Average	2.16	2.59	2.79	12.76	13.20	12.87

Sources: Haver Analytics and Citi Research forecasts

Argentina

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After a period of strong turmoil in the FX market, which included a step devaluation, the authorities' intervention has temporarily stopped the drain in international reserves. However, this was mainly the consequence of regulatory changes limiting banks' FX positions and increased FX pressure on exporters and importers. The authorities anticipate that a second quarter export pick-up will contribute to restoring stability. However, macroeconomic conditions remain unsustainable, in our view. Even after taking into account the recent FX purchases by the BCRA, the latter sold USD5bn of foreign currency in the FX market during the last 12 months. With net liquid reserves around USD13bn, the central bank's room to continue intervening in the FX market seems limited. The authorities seem to be working on an agenda to regain access to credit markets. They have announced a new and more credible CPI (attempting to appease the IMF) and are willing to engage the Paris Club and resolve some other debt difficulties. Furthermore, there are some hints of potential fiscal initiatives (reduction in subsidies). However, these measures are only the initial and partial steps and the road is long and arduous. We see the official USDARS at 10 by the end of this year, non-official inflation accelerating to 38%, up from 28% in 2013, and activity dropping by 1%.

Venezuela

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Social unrest originated by students' protests escalated throughout February creating an environment in which violent acts took the lives of several people. Both the government and the opposition have made public statements repudiating these violent acts and blaming each other for them. In this line, the government posted an arrest warrant for opposition leader Leopoldo López, who surrendered to police on charges related to the deadly protests. We expect these politically-oriented social protests to continue although at a lower scale. However, we expect economically-driven social unrest to rise in coming months as a result of the fragile economic environment generated by inflation and scarcities. In that context, we do not expect the government to show pragmatism in terms of economic policy, although the market will be looking at the evolution of SICAD 2, the newly created mechanism to buy and sell USD. We continue to expect GDP to display an important contraction this year (-1.0%) along with high levels of inflation (likely to hit around 75% at end-14) making Venezuela the worst-performing economy in LatAm. Nonetheless, we think Venezuela will honour its external debt obligations in 2014, although we recognise that every year the USD cash flow management gets more difficult as a consequence of unstoppable fiscal spending and stagnant oil revenues.

Figure 38. Argentina and Venezuela — Economic Forecasts, 2013-2015F

		Argentina			Venezuela		
		2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	4.9%	1.0%	1.5%	1.5%	-1.0%	1.9%
Final Domestic Demand	YoY	6.0	0.8	1.6	-0.2	-1.1	0.7
Private Consumption	YoY	6.0	2.1	2.1	3.8	0.1	0.3
Fixed Investment	YoY	5.7	-3.7	-0.3	-3.5	-3.5	0.9
Exports	YoY	-0.1	-1.6	-1.5	-3.8	1.3	4.2
Imports	YoY	8.6	-1.9	0.0	-4.6	-0.7	-1.0
CPI	YoY	10.6	25.6	30.5	38.5	63.2	81.4
Unemployment Rate	%	7.1	7.7	8.1	5.6	5.3	5.0
Current Account	US$ bn	-2.9	-1.9	-1.6	12.2	14.9	18.2
	% of GDP	-0.6	-0.5	-0.4	3.3	4.0	5.1
Fiscal Balance	% of GDP	-2.4	-3.1	-2.3	-11.9	-11.1	-10.3
US Dollar Exchange Rate	Average	5.45	8.89	11.81	5.99	10.58	19.80

Sources: Haver Analytics and Citi Research forecasts

Saudi Arabia

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Oil production declined in the final months of 2013, bringing the yearly average production to 9.5mbpd, in line with our forecasts. We expect production to decline slightly in 2014, and we are forecasting an average for 2014 of 9.2mbpd. We believe the drop in production will reflect the slight softening in oil prices that we are forecasting going forward, along with increased production elsewhere in the region, most notably Iraq. The ongoing talks between the P5+1 and Iran may, in our opinion, result in an easing of some sanctions on oil exports. If this were to happen, it would represent a down-side risk to Saudi production and our economic forecasts. Public finances and external balances are expected to remain robust in the near term: the current account surplus looks set to remain in double digits in 2014, while we expect the fiscal surplus will narrow from around 10% this year to a still healthy 5% in 2014. That said, we think rising expenditures and an expected leveling off in oil revenues present a challenge in the medium- to long-term. We forecast the fiscal breakeven oil price will rise to over $90 per barrel in 2014 and will continue to rise, resulting in forecast deficits as early as 2016. Although Saudi has ample resources to finance expected deficits from current cash reserves, the outlook does underscore the need for structural reform to set public finances on a long-term sustainable footing.

United Arab Emirates

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Dubai's award of Expo 2020 in late November capped another year of strong economic performance in the emirate, fuelling investor confidence and driving a steep recovery in asset prices. The Dubai Financial Market all-shares index gained over 80% in value in the course of 2013, and the real estate market continues to surge, with Cluttons data showing that the average selling price of mid-range villas rose 42% during 2013. Much of this rise occurred in the first six months of the year, with property values rising by a more modest 20% per year (annualised rate) in the second half. That said, we believe that the award of Expo may fuel further exuberance in the market, which has been accompanied by the announcement of a large number of new real estate projects. For now, construction activity remains contained to new developments in prime locations, such as on the Palm or in the Downtown area. Should we see a surge in construction activity in less prime areas, accompanied by aggressive off-plan sales strategies, we believe the potential for further property-led volatility in the Dubai economy will become increasingly likely. Dubai Expo could, in our view, be a trigger for such activity.

Figure 39. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2013-2015F

		Saudi Arabia			United Arab Emirates		
		2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	3.7%	4.2%	6.1%	3.7%	4.0%	4.0%
Final Domestic Demand	YoY	8.0	8.0	8.1	4.7	4.7	4.7
Private Consumption	YoY	5.0	5.0	5.0	5.0	5.0	5.0
Fixed Investment	YoY	10.0	10.0	10.0	5.0	5.0	5.0
Exports	YoY	-1.2	1.0	1.3	14.0	13.0	14.0
Imports	YoY	15.0	15.0	15.0	15.0	15.0	15.0
CPI	YoY	3.5	3.5	4.1	1.5	1.3	1.6
Current Account	US$ bn	134.5	106.4	75.8	107.3	93.8	80.0
	% of GDP	18.2	13.7	9.3	26.2	21.4	17.0
Fiscal Balance	% of GDP	7.4	5.1	0.4	NA	NA	NA
US Dollar Exchange Rate	Average	3.75	3.75	3.75	3.67	3.67	3.67

Sources: Haver Analytics and Citi Research forecasts

Egypt

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The military's political roadmap to a new political dispensation should clearly unfold in 2014 following the approval of a new constitution. The first step will be presidential elections, likely to be held in early April and contested by the former military commander, Field Marshall Abdelfattah el Sisi. This transition is likely to have the support of foreign governments, and although the course may not be smooth, it is likely to remain on track. Meanwhile, substantial Gulf support has helped stabilise the exchange rate and partially eased, but not eliminated, foreign exchange shortages. In addition, the government plans to use Gulf support to fund a major push in capital spending in 2014 to kick-start the economy. Coupled with greater political stability, the hope is investment and tourism start to recover in 2H 2014 and into 2015. But while this should help drive a slow recovery, we do not see it as a long-term solution to the problems facing the economy or stabilising the EGP, notably the pressing need for a medium- to long-term strategy to reduce the fiscal deficit.

South Africa

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2014 GDP is looking poorly. Higher inflation and tighter monetary policy is set to weigh heavily on the economy and we now expect GDP to grow only 2.4% this year (2.8% previously). Sentiment amongst corporates is likely to remain low, limiting capital expansion plans and weighing heavily on private investment which, in turn, means little upside for job creation. To compensate, we expect wage negotiations to aim for above-CPI settlements, together with the currency, food prices and rental yields will push inflation back above the SA Reserve Bank's 6% target ceiling by Q2 14. Upside price pressures will likely remain a strong feature of South Africa's outlook but, at the same time, a low growth prognosis keeps the interest rate debate alive. We believe the SARB's proactive move to hike rates in January means a further 100bp in hikes to come, split between March and July. While this should help to bring inflation back within the 3%-6% target range (by Q1 15) it should also cramp consumer spending power and fixed investment spending. The current account deficit is projected to narrow, though only slowly (4.7% this year from 5.8% in 2013) due to limited import compression on account of government's infrastructure requirements. A narrowing trend is ZAR-positive but still requires sizeable capital flows. Political noise should remain elevated in H1 14 given the upcoming national elections on 7 May 2014. While the current ruling party, the ANC, has lost some shine due to poor service delivery and apparently weak leadership, opposition parties are gaining momentum with recent polls showing keener interest by the public in the Democratic Alliance and the EFF.

Figure 40. Egypt, Nigeria and South Africa — Economic Forecast, 2013-2015F

		Egypt			Nigeria			South Africa		
		2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Real GDP	YoY	2.0%	2.9%	3.4%	6.5%	6.6%	6.4%	1.9%	2.4%	2.9%
Final Domestic Demand	YoY	3.1	4.2	6.1	NA	NA	NA	2.7	2.4	3.1
Private Consumption	YoY	2.7	3.5	5.1	NA	NA	NA	2.7	2.3	3.0
Fixed Investment	YoY	3.0	8.9	10.3	NA	NA	NA	3.1	2.9	4.1
Exports	YoY	2.9	2.0	6.0	NA	NA	NA	3.7	6.9	5.6
Imports	YoY	2.3	4.7	13.4	NA	NA	NA	6.1	5.2	6.8
CPI	YoY	9.5	8.7	7.0	8.5	8.8	10.6	5.8	6.1	5.7
Unemployment Rate	%	13.5	14.2	14.5	NA	NA	NA	25.5	25.0	24.6
Current Account	US$ bn	-4.2	-3.5	-6.2	22.4	15.8	10.7	-20.3	-15.3	-14.6
	% of GDP	-1.7	-1.3	-2.2	7.0	4.4	2.6	-5.8	-4.7	-4.2
Fiscal Balance	% of GDP	-12.7	-12.0	-9.9	-2.1	-2.9	-2.9	-4.2	-4.2	-4.3
US Dollar Exchange Rate	Average	6.87	7.16	7.54	159.2	164.00	168.46	9.65	11.48	11.58

Sources: Haver Analytics and Citi Research forecasts

Figure 41. Selected Emerging Market Countries — Economic Forecast Overview, 2013-2015F

	GDP Growth (%)			CPI Inflation (%)			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Asia	6.3	6.2	6.2	3.7	3.9	4.1	2.3	2.1	1.5	-2.4	-2.3	-1.8
China	7.7	7.3	7.0	2.6	3.2	3.7	2.2	2.0	1.5	-2.0	-2.0	-1.5
Hong Kong	3.0	3.4	3.8	4.3	3.6	4.0	2.8	3.1	3.9	1.3	1.3	0.7
India	4.9	5.6	6.2	9.6	8.3	7.5	-2.0	-2.3	-2.2	-6.9	-6.7	-6.5
Indonesia	5.8	5.3	5.5	6.4	6.5	5.7	-3.3	-2.5	-2.1	-2.2	-2.2	-1.7
Korea	2.8	3.7	3.9	1.3	2.1	3.1	5.9	4.1	3.3	0.9	1.0	1.6
Malaysia	4.7	5.0	4.9	2.1	3.5	4.6	3.8	4.4	4.0	-3.9	-3.5	-3.0
Mongolia	11.7	11.0	8.0	10.5	13.7	12.0	-31.0	-24.6	-18.2	-4.0	-2.8	-2.3
Philippines	7.2	6.9	7.3	2.9	4.8	4.0	3.5	3.5	2.9	-1.7	-1.8	-1.6
Singapore	4.1	3.5	4.0	2.4	1.8	2.3	18.4	18.0	18.0	1.1	-0.3	0.2
Sri Lanka	6.8	7.0	7.0	6.9	5.7	6.5	-4.0	-3.1	-3.1	-6.0	-5.8	-5.6
Taiwan	2.1	3.2	3.8	0.8	1.3	1.9	11.7	11.0	10.2	-1.5	-1.4	-0.8
Thailand	2.9	1.8	4.1	2.2	2.3	2.8	-0.7	2.3	-1.1	-1.8	-1.2	-1.8
Vietnam	5.4	5.7	5.9	6.6	5.8	7.2	4.9	3.7	2.5	-5.3	-4.5	-4.0
Latin America	2.4	2.2	2.9	7.3	9.0	10.3	-2.6	-2.7	-2.4	-3.2	-3.6	-2.8
Argentina	4.9	1.0	1.5	10.6	25.6	30.5	-0.6	-0.5	-0.4	-2.4	-3.1	-2.3
Brazil	2.1	1.3	1.8	6.2	6.0	6.0	-3.7	-3.9	-3.8	-3.3	-3.7	-2.8
Chile	4.0	3.5	4.5	1.8	3.2	3.1	-3.5	-3.8	-4.0	-0.3	-0.4	-0.4
Colombia	4.0	4.6	5.0	2.0	2.3	3.4	-3.3	-3.6	-4.0	-1.4	-1.3	-0.7
Costa Rica	3.5	4.0	4.5	5.2	2.9	4.1	-5.5	-5.4	-5.3	-6.0	-6.7	-7.0
Dominican Republic	4.1	4.0	4.5	4.8	4.0	4.6	-4.4	-5.4	-5.1	-4.2	-4.0	-4.2
Ecuador	4.0	4.1	4.5	2.7	2.9	3.1	-1.8	-2.2	-1.5	-2.4	-1.9	-1.5
El Salvador	1.8	2.2	2.5	0.8	0.8	1.8	-6.1	-6.3	-5.7	-4.2	-4.1	-3.7
Mexico	1.1	3.8	4.0	3.8	4.3	3.7	-1.7	-2.0	-1.7	-2.4	-3.5	-2.5
Panama	8.0	6.2	5.5	4.0	2.7	2.8	-10.2	-10.0	-9.2	-3.5	-3.0	-3.0
Peru	5.0	5.7	6.2	2.8	2.7	2.5	-5.2	-5.6	-1.5	0.8	0.0	0.0
Venezuela	1.5	-1.0	1.9	38.5	63.2	81.4	3.3	4.0	5.1	-11.9	-11.1	-10.3
Europe	1.9	2.6	3.1	5.5	4.9	4.9	-1.3	-1.0	-1.4	-2.2	-2.4	-3.6
Bulgaria	0.6	1.5	2.5	0.9	1.0	2.5	2.1	-0.8	-0.5	-1.8	-2.0	-1.2
Croatia	-1.0	1.2	2.0	2.2	1.2	3.2	0.2	-0.2	-1.0	-5.5	-5.5	-5.0
Czech Republic	-1.1	1.9	2.4	1.4	1.3	2.3	-0.7	0.0	-0.4	-2.4	-2.9	-2.9
Hungary	1.1	1.9	1.5	1.7	0.8	2.9	2.0	2.5	2.0	-2.6	-2.9	-2.9
Kazakhstan	5.8	6.0	6.2	5.7	5.7	6.3	-0.2	0.9	1.3	3.2	2.3	2.1
Poland	1.6	3.4	3.6	2.6	1.5	2.8	-1.5	-2.5	-3.6	-4.2	5.7	-2.3
Romania	3.4	3.0	3.3	4.0	2.4	3.4	-1.1	-2.5	-4.2	-2.5	-2.3	-2.3
Russia	1.3	2.6	2.7	6.8	5.7	4.9	1.6	1.2	0.9	-2.0	-4.3	-4.9
Serbia	2.5	1.2	2.0	7.9	5.2	6.0	-5.0	-4.0	-5.5	-7.2	-5.5	-5.0
Slovakia	1.0	2.0	2.5	1.4	0.3	1.5	4.2	4.4	3.7	-2.7	-3.3	-2.6
Turkey	4.0	2.3	3.5	7.5	7.7	7.4	-7.8	-5.2	-5.3	-1.2	-2.8	-3.2
Ukraine	0.0	-0.1	2.5	-0.3	4.2	4.8	-9.4	-8.8	-8.6	-6.0	-4.0	-3.9
Africa/Mideast	3.9	4.6	5.3	4.3	4.4	5.0	12.7	10.7	8.4	1.3	0.6	-1.0
Bahrain	4.3	4.0	4.1	3.3	2.4	2.0	5.3	2.4	-1.5	-2.2	-3.3	-5.5
Egypt	2.0	2.9	3.4	9.5	8.7	7.0	-1.7	-1.3	-2.2	-12.7	-12.0	-9.9
Ghana	4.8	4.6	6.5	11.4	12.7	7.7	-12.5	-12.2	-11.4	-10.1	-8.6	-7.4
Iraq	3.1	10.4	11.6	1.9	4.5	6.0	13.5	13.8	12.8	-0.6	2.0	2.9
Israel	3.2	3.4	3.5	1.5	1.2	3.0	1.2	1.9	1.7	-2.7	-3.0	-2.5
Jordan	3.0	4.0	4.5	5.5	3.7	5.0	-15.2	-14.2	-11.9	-8.2	-10.1	-9.9
Kenya	5.1	5.5	6.1	5.7	7.1	6.7	-7.8	-7.6	-7.5	-7.0	-5.5	-4.5
Kuwait	4.3	3.9	3.9	2.6	3.1	5.0	51.0	49.5	47.8	26.8	27.0	21.0
Lebanon	1.4	2.0	2.4	2.1	3.7	5.0	-4.5	-5.3	-6.0	-10.0	-9.3	-8.7
Nigeria	6.5	6.6	6.4	8.5	8.8	10.6	7.0	4.4	2.6	-2.1	-2.9	-2.9
Oman	11.5	5.9	5.9	2.1	2.1	3.0	10.4	8.2	6.3	1.2	-1.5	-3.5
Qatar	5.6	5.9	6.1	3.1	2.5	3.5	29.7	25.5	20.7	8.1	4.2	1.2
Saudi Arabia	3.7	4.2	6.1	3.5	3.5	4.1	18.2	13.7	9.3	7.4	5.1	0.4
South Africa	1.9	2.4	2.9	5.8	6.1	5.7	-5.8	-4.7	-4.2	-4.2	-4.2	-4.3
Tanzania	6.8	7.0	8.1	7.9	6.6	6.8	-10.2	-14.1	-12.4	-5.0	-5.2	-5.9
UAE	3.7	4.0	4.0	1.5	1.3	1.6	26.2	21.4	17.0	NA	NA	NA
Uganda	5.0	5.6	6.5	5.5	6.0	6.1	-12.0	-13.9	-14.9	-3.4	-3.3	-3.5
Zambia	6.0	6.4	6.3	7.0	7.0	7.3	-1.3	-1.0	-1.5	-8.5	-6.6	-5.5
Total	4.5	4.7	5.0	4.7	5.0	5.4	2.0	1.8	1.2	-2.1	-2.3	-2.2

Sources: National sources and Citi Research forecasts

Sovereign Ratings

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The *Sovereign Ratings Outlook* is a joint product between the Citi economics and rate strategy teams, with input from various other research teams. We aim to forecast the direction and scale of sovereign debt ratings (local currency), as well as any changes in the ratings outlook, for a range of countries. These are our judgments over the ratings outlook, rather than model-determined recommendations. All economic and fiscal forecasts are consistent with those published in Citi's monthly "*Global Economic Outlook and Strategy*" or other research. We do not aim to make a judgment on the financial market implications of ratings changes, except in so far as we expect any such market implications to affect other sovereign ratings.

Given economic updates in this publication and based on rating agency criteria, we highlight our economists' and strategists' main expectations for sovereign ratings over the near (2-3 quarters) and longer (2-4 years) term.

Figure 42. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

	S&P Ratings				Moody's Ratings			
Country	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Canada	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3 (Stable)	A1 ↓
Germany	AAA	Stable	AAA (Stable)	AAA	Aaa	Neg	Aaa (Stable)	Aaa
France	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa2 ↓
Italy	BBB	Neg	BBB (Neg)	BBB- ↓	Baa2	Stable	Baa2 (Stable)	Baa3 ↓
Spain	BBB-	Stable	BBB- (Stable)	BBB ↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↑
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Neg	Aaa (Neg)	Aaa
Belgium	AA	Neg	AA (Neg)	AA	Aa3	Neg	Aa3 (Neg)	Aa3
Finland	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Greece	B-	Stable	B- (Stable)	B-	Caa3	Stable	Caa3 (Stable)	Caa3
Ireland	BBB+	Positive	A- (Stable) ↑	A- ↑	Baa3	Positive	Baa2 (Stable) ↑	A3 ↑↑↑
Netherlands	AA+	Stable	AA+ (Stable)	AA+	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Portugal	BB	Neg	BB+ (Pos) ↑	BBB- ↑↑	Ba3	Stable	Ba2 (Pos) ↑	Baa3 ↑↑↑
UK	AAA	Neg	AAA (Stable)	AAA	Aa1	Stable	Aa1 (Pos)	Aaa ↑
Switzerland	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Sweden	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Denmark	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Norway	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
EU	AA+	Stable	AA+ (Stable)	AA+	Aaa	Neg	Aaa (Neg)	Aa1 ↓
ESM	Not rated				Aa1	Neg	Aa1 (Neg)	Aa2 ↓
EFSF	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa2 ↓

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. NA Not available. Sources: Moody's, S&P and Citi Research

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Expected Ratings Issues

Spain — now Baa2 positive by Moody's: Since we last published, Spain became the latest sovereign to benefit from a ratings upgrade when Moody's revised its rating from Baa3 stable to Baa2 positive on 21 February (*Euro Rates Strategy - Spain Upgraded By Moody's To Baa2*). The report acknowledged the general economic improvement and the reduced implementation risks of Spain's reform agenda. However, drilling into the drivers, Moody's growth and debt forecasts did not change much from their last report (continuing to expect growth around 0.8% in 2014 and debt-to-GDP to peak at around 102% in the middle of the decade). Assessing their scorecard representation, the main change came in their "event risk" score which moved from "M+" to "M-" (where M stands for "moderate" and is in the middle of their scale from "Very High" to "Very Low"). This essentially reflects lower funding costs, the security of market access and the assessment that broader contagion fears are reduced. With the rating now on positive outlook, we believe further upgrades are likely over the longer term.

Figure 43. Upcoming Rating Calendar

Date	Sovereign	Rating Agency	Current Rating	Current Outlook
28-Feb-14	Austria	Moody's	Aaa	Neg
28-Feb-14	Belgium	S&P	AA	Neg
28-Feb-14	Luxembourg	Moody's	Aaa	Neg
28-Feb-14	Germany	Moody's	Aaa	Neg
07-Mar-14	Netherlands	Moody's	Aaa	Neg
07-Mar-14	Belgium	Moody's	Aa3	Neg
14-Mar-14	EU	Moody's	Aaa	Neg
21-Mar-14	Cyprus	Moody's	Caa3	Neg
21-Mar-14	Greece	S&P	B-	Stable
28-Mar-14	Austria	S&P	AA+	Stable
28-Mar-14	Estonia	Moody's	A1	Stable
28-Mar-14	Luxembourg	S&P	AAA	Stable

Sources: Citi Research, Moody's, S&P and Bloomberg

Italy — now Baa2 stable by Moody's: Moody's also revised its outlook on Italy's Baa2 rating from negative to stable since we last published. This was driven primarily by two factors: 1) the resilience of the government's financial strength (Moody's expecting debt to GDP to level off in 2014) and 2) the reduction in tail risks associated with Italy's contingent liabilities. We do not anticipate any change in Italy's rating in the quarters ahead. However, due to remaining concerns about Italy's competitive position and growth outlook, Citi expects downgrade risks to remain over the longer-term.

Portugal — a return to market is a credit positive: Risks to Portugal's growth outlook are now to the upside and bond yields continue to tumble (10yr Portugal is now around 4.84% from a high of over 7.5% over the last 12 months and an all-time peak of over 16% in early 2012). We now expect that Portugal can and will exit its Troika programme without the need for extra official support. We expect rating agencies increasingly to acknowledge this and, in doing so, we expect an upgrade by Moody's and S&P later this year.

Ireland — Moody's upgraded Ireland from Ba1 Stable (sub-IG) to Baa3 Pos (IG) on 17 January. Ireland is now rated Investment Grade by all three rating agencies with a positive outlook by both Moody's and S&P. We expect another upgrade of Ireland by both agencies later this year (*Ireland UPGRADED*).

Austria — Austria's banking sector weaknesses remain an important sovereign credit driver. On balance, we do not think a downgrade of Austria by Moody's is automatic on Friday, and our base case is for the Aaa negative outlook to remain.

Germany — Given subsiding event risk and the improved market tone, we believe Moody's will restore Germany's Aaa outlook from negative to stable this Friday (*The Morning Call - The Week Ahead: 24th February-2nd March*).

UK — Given the strong performance of the UK economy, we believe S&P will return its AAA rating of the UK back to stable in 2014. The next opportunity for this to occur is on 6 June when the UK features in S&P's calendar. We also see the growing possibility that Moody's places the UK back onto positive outlook and ultimately upgrades the rating from Aa1 to Aaa. This is largely based on the strongly improved growth environment.

US — The US is rated AA+ Stable by S&P and Aaa Stable by Moody's and we do not anticipate any change in the US rating over the long term.

Yield and Spread Forecast Commentary

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US: Treasury yields remain near the middle of the range of the last six months. This is despite continued progress on the economic front and expectations of the first Fed Funds hike creeping closer. While we continue to expect Treasury yields to rise in 2014, this view has been a strong consensus position, which has likely prevented yields from doing so. Improving growth and the tapering of QE appear already to be priced-in to Treasury yield levels and it will likely take a more dramatic surprise to break the current range. With the recent slowdown of growth in the US (evident in the US Citi Growth Index for example) and investors likely biased to short duration, we have taken a tactical long duration view. We have also slightly lowered our year-end 10yr Treasury yield expectation from 3.3% to 3.2%. As this is still well above current forward rates, we ultimately expect accelerating fundamentals and a less accommodative Federal Reserve to drive Treasury yields higher in 2014 — it may just be later rather than sooner.

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Core Europe: Citi now expects a 15bp cut in the ECB refi rate at the March meeting and a 10bp deposit rate cut later in the year. Such loosening of monetary policy is likely to remain supportive for the lower-for-longer theme in core EMU rates markets. 10yr Bunds have averaged 1.74% so far over 2014. We do not expect a substantial deviation of Bund yields from the current levels in the coming three quarters. Core EMU Spreads to Bunds should remain near current levels with OAT-Bund spreads largely range bound about 50bp-80bp.

EMU Periphery: EMU periphery markets continue to enjoy a variety of healthy supports, not least from the various positive announcements from rating agencies (Moody's lifting the negative outlook on Italy's Baa2 rating and separately *upgrading* Spain by one notch from Baa3 to Baa2 positive outlook). We continue to see spreads tightening further to Bunds, but for Bonos to outperform BTPs over the course of 2014. This is largely based on their relative fundamental performance and political environment. For one Spain is expected to grow at 0.9% this year, Italy is expected to grow around 0.3% this year. For Q4 2014, we forecast Bono spreads to Bunds at 160bp and BTP spreads to Bunds at 140bp. We continue to see Ireland gradually tightening towards the soft core, targeting a Q4 2014 spread of 110bp.

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UK: The BoE's latest version of guidance suggests that monetary policy will be very data-dependent. We sit in the more optimistic camp on the economy and continue to expect the first hike in Q4 of this year. We highlight three main themes. First, the front-end will likely lose its anchor in coming quarters, prompting bear flattening in 2s10s. Second, that gilts should underperform on a cross-market basis and finally de-couple from Treasuries (for the 10yr gilt-Treasury spread, we target +30bp in H2 2014). Third, that the 10s30s curve is likely to flatten by more than the usual beta would imply as the result of strong demand for the very long-end as pension funds de-risk.

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Japan: Reinvestment risks will be important when domestic investors assess their FY2014 investment plans under the new budgets, due to the BoJ's aggressive market operations and large-scale redemptions of high-coupon JGBs. The consumption tax hike from April this year is likely to cause a temporary downturn in the economic recovery. We suspect that a further decline in JGB yields would be painful for many bond investors. In that case, we expect 10-30yr JGB spread to bull-steepen and swap spread to contract concurrently. Meanwhile, we expect JGB yields will gradually stretch the upside room if the trend of equity gains and yen depreciation hold in response to a recovery from summer onward. In Citi's scenario, the 10yr JGB yield is envisaged to cross the 1% threshold in spring 2015. The widening of BEI is expected to remain measured due to the fact that many market participants are still sceptical of the BoJ achieving its 2% price stability target.

Figure 44. Interest Rate and Bond Market Forecasts as of 26 February 2014

	Quarterly Average						
	Current	1Q 14F	2Q 14F	3Q 14F	4Q 14F	1Q 15F	2Q 15F
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Libor	0.23	0.23	0.23	0.23	0.23	0.32	0.45
2 Year Treasury Yield	0.32	0.31	0.38	0.53	0.70	0.90	1.10
5 Year Treasury Yield	1.54	1.52	1.58	1.73	1.90	2.13	2.38
10 Year Treasury Yield	2.74	2.70	2.80	2.95	3.10	3.30	3.40
30 Year Treasury Yield	3.70	3.70	3.83	4.00	4.15	4.33	4.45
2-10 Year Treasury Curve	242	239	243	243	240	240	230
2 Year Swap Spread (Swap Less Govt), bp	14	15	15	15	15	15	15
10 Year Swap Spread (Swap Less Govt), bp	10	10	13	15	15	15	15
30 Year Swap Spread (Swap Less Govt), bp	-3	-4	-5	-5	-5	-5	-5
30 Year Mortgage Yield	4.35	4.38	4.48	4.63	4.80	5.00	5.18
10 Year Breakeven Inflation	215	220	233	238	235	238	238
Euro Area							
Policy Rate End Quarter	0.25	0.10	0.10	0.10	0.10	0.10	0.10
Overnight Rate (EONIA)	0.17	0.15	0.10	0.00	0.00	0.00	0.00
3-Month (EURIBOR)	0.26	0.25	0.20	0.15	0.15	0.15	0.15
2 Year Schatz Yield	0.12	0.12	0.00	0.05	0.10	0.10	0.10
5 Year Bobl Yield	0.68	0.70	0.50	0.50	0.50	0.60	0.60
10 Year Bund Yield	1.67	1.70	1.65	1.70	1.80	1.90	1.90
30 Year Bund Yield	2.56	2.62	2.60	2.60	2.60	2.60	2.60
2-10 Year Bund Curve	155	158	165	165	170	180	180
10 Year BTP-Bund Spread	194	200	180	170	160	150	150
10 Year Bono-Bund Spread	187	190	175	160	140	140	125
2 Year BTP-Schatz Spread	71	75	75	75	75	50	50
2 Year Bono Schatz Spread	67	75	75	75	75	50	50
10 Year OAT-Bund Spread	60	65	65	65	65	65	65
10 Year Swap Spread (Swap Less Govt.), bp	22	25	25	20	20	20	20
10 Year Breakeven Inflation	138	135	140	145	150	150	150
Japan							
Policy Rate End Quarter	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.14	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Treasury Yield	0.08	0.10	0.05	0.10	0.15	0.20	0.20
5 Year Treasury Yield	0.18	0.20	0.15	0.20	0.30	0.35	0.40
10 Year Treasury Yield	0.59	0.63	0.55	0.70	0.85	0.95	1.05
30 Year Treasury Yield	1.64	1.65	1.65	1.75	1.85	1.90	1.95
2-10 Year Treasury Curve	51	53	50	60	70	75	85
2 Year Swap Spread (Swap Less Govt.), bp	11	11	10	12	14	15	15
10 Year Swap Spread (Swap Less Govt.), bp	20	20	15	20	22	25	25
10 Year Breakeven Inflation	115	115	105	100	100	110	115
UK							
Policy Rate End Quarter	0.50	0.50	0.50	0.50	0.75	1.25	1.50
3-Month Libor	0.52	0.55	0.60	0.70	1.00	1.45	1.70
2 Year Treasury Yield	0.49	0.53	0.85	1.30	1.50	1.65	1.75
5 Year Treasury Yield	1.65	1.70	2.00	2.40	2.60	2.75	2.85
10 Year Treasury Yield	2.77	2.85	3.00	3.25	3.40	3.50	3.60
30 Year Treasury Yield	3.54	3.55	3.55	3.75	3.85	3.90	3.95
2-10 Year Treasury Curve	228	232	215	195	190	185	185
10 Year Swap Spread (Swap Less Govt.), bp	6	5	10	15	15	20	20
10 Year Breakeven Inflation	298	300	310	320	325	330	335
Australia							
Policy Rate End Quarter	2.50	2.50	2.50	2.50	2.50	2.75	3.25
3-Month Libor	2.63	2.60	2.60	2.60	2.75	2.95	3.45
2 Year Treasury Yield	2.73	2.75	2.80	2.95	3.15	3.50	3.85
5 Year Treasury Yield	3.45	3.50	3.75	3.95	4.10	4.35	4.60
10 Year Treasury Yield	4.16	4.30	4.40	4.50	4.60	4.70	4.80
2-10 Year Treasury Curve	143	155	160	155	145	120	095
10 Year Swap Spread (Swap Less Govt.), bp	35	35	35	40	40	45	45

Source: Citi Research

Commodities Market Outlook

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There has been a surge of investor interest in commodities this month, particularly natural gas, the oil complex, ags and gold, accompanying an increase in prices for most commodities and, as a result, we have shifted more neutral and less bearish toward the complex than was the case at the start of the year. Weather-related tail risk events have been at the heart of the energy and agricultural price increases, but in the case of oil and natural gas, these should dissipate over time as inventories are replenished. Weather conditions, particularly drought, should affect specialty crops but so far the main grains should see prices becoming more moderate later this year should the US harvest remain resilient. Macro events, including US Fed tapering, are weighing on the dollar and investors' renewed interest in gold is also being bolstered by emerging political instability in Ukraine and Venezuela and by EM currency and growth concerns.

Oil prices have been range-bound with the global waterborne benchmark Brent trapped in a $105-111/bbl band since the start of this year. Global oil fundamentals have firmed with OECD demand surprising to the upside, helped by the extreme winter in the US, and there is growing pessimism over returning Iraqi and Libyan supply. Delays at the supergiant Kashagan field mean that commercial production is unlikely in 2014 despite previous forecasts of ~200-k b/d y/y growth. The Brent benchmark, which is used to price around 70% of global crude, is also finding support from the North Sea physical market as structurally declining output, lower Urals flows to Europe and an increasing bid from Asia are helping to keep the Brent structure firmly backwardated. Supply disruptions have shown little sign of abating in 2014 as Libya, Iran, Iraq, South Sudan, Nigeria, Syria and Yemen continue to face heavy supply disruptions. Saudi production was ~9.7-m b/d in January, which will likely have to drop if non-OPEC supply grows at an expected 1.7-m b/d level; yet there are big uncertainties over this and with prices well over $100/bbl, voluntary pullbacks from the Saudis seem unlikely. OECD oil stocks have seen heavy draws, with the 1.5-m b/d 4Q'13 draw, the steepest quarterly decline since 4Q'99 (and the need to replenish them should provide a bid for oil). Sentiment remains unlikely to remain bullish throughout the entire year. however, with managed money net length as a percent of total open interest around the all-time highs. Citi remains bearish on oil prices in 2014 despite the recent upward revision, forecasting a cal-14 price of c$103/bbl compared to the realised 2013 price of $109/bbl.

On the other hand for base metals, the early 2014 exuberance for copper, driven by expansive China Grid Corporation spending plans, has increasingly given way to pessimism, as successive China data releases have pointed towards a slowing in manufacturing activity. Indeed, the flash February PMI in a survey conducted by HSBC/Markit came in at 48.3, well below consensus expectations of 49.6, while moves by Chinese banks to limit property-related lending has prompted concerns over the outlook for construction activity through this year. But despite economic concerns, China continues to absorb significant tonnages of metal, with January import volumes of refined copper the second highest on record at 397,459 tonnes. We believe much of this import demand continues to be driven by the shadow banking sector and the use of metals, most notably copper, but also zinc and nickel, as collateralised tools to raise funds. To be sure, the moves to restrict official forms of credit have prompted stronger demand for metals to collateralise loans despite the Chinese Government's clearly stated intention of clamping down on shadow banking activities. On an aggregate level, most metals markets continue to struggle with an overabundance of supply, most notably with aluminum, but also with nickel and increasingly copper. Indeed, we expect refined copper supply to pick up strongly through 2014 as over 1 million tonnes of new Chinese copper smelting and refining capacity is brought on stream, while existing plants up capacity utilisation

rates in response to more positive treatment and refining charges (TC/RCs). Although Nickel remains currently oversupplied, we expect the complexion of this market to change significantly as 2014 progresses driven largely by the impact of the Indonesian ore export ban, introduced on January 12th, becoming an increasingly supportive factor. Indonesia accounted for over 65% of China's nickel ore supplies in 2013, accounting for between 400-450 kt of Chinese Nickel Pig Iron production last year. We believe China has around 10-12 months of ore supply collectively, but also expect some NPI producers to begin to run out of ore as soon as April. As a result we expect nickel prices to grind upwards through the year, a significant contrast to the base metals sector as a whole.

For thermal coal, we are marking to market our 1Q 14 price forecast and rolling over our 0-3M price target, with the latter moving to $75 for Newcastle swaps. The Pacific Basin remains awash with supply, as Australian producers hamstrung by take or pay rail contracts seek to increase production in order to reduce average costs per tonne. The Indonesian government is seeking to rein in production but will be challenged. Chinese demand is likely to weaken, while Japanese demand is strengthening, with India representing the key swing factor. In the Atlantic, while US exports are likely to decline due to stronger domestic demand, Columbian exports should rebound by 25 Mt/y as Drummond completes direct loading facilities. For metallurgical coal, we are revising down our price forecasts for 2014 and 2015 and setting a 0-3M price target of $125 and 6-12M target of $130. While a rebound in Chinese steel production should provide short term relief to met-coal prices, strong supply out of Australia and China, rebounding exports from Mongolia, and weaker end-use demand from China are expected to drive prices lower over the coming months.

Agriculture prices are expected to diverge this year with the more exotic emerging-market grown softs such as premium coffee and cocoa expected to trade significantly higher year/year on Brazilian weather risks and deficit balances while the much larger and more critical staple grains such as corn, soybeans and wheat are expected to trade lower — particularly towards 2H'14. Earlier this month, the US Department of Agriculture (USDA) argued for a still strong but measurably softer outlook for the US farm economy in 2014. The official agency forecast calls for a year of record US crop exports exceeding $142Bn in sales, with a net trade balance impact of +$32.6Bn. Farmer income is expected to soften ~15-25% year/year to c$100-110Bn, including crop insurance indemnities, amid weakening grain prices. The ERS food CPI outlook for 2014 is assessed to remain stable at 2.5-3.5%. Despite recent strength at the front of the curve for the staple cereal market including corn and soy, on the assumption of normalised trend yields and robust 2014 planted acreage, the preliminary USDA outlook affirms Citi's bearish forecast for 2H'14 row crop and cotton prices. By happenstance, the agency matched the Citi planted acreage estimate (92-mn) and harvest price outlook (~USd380/bu) for corn and is near Citi's bearish outlook for soybeans as well.

Figure 45. Citi Commodities Price Forecast*

		Point Prices																			
		0-3M	6-12M		Q3 2013	Q4 2013	Q1 2014E	Q2 2014E	Q3 2014E	Q4 2014E	Q1 2015E	Q2 2015E	Q3 2015E	Q4 2015E	2012	2013	2014	2015E	2016E	2017E	2018E
Energy				**5Y Cyclical**																	
NYMEX WTI	USD/bbl	88.0	96.0	81.0	108.0	97.6	97.0	88.0	102.0	90.0	93.0	86.0	92.0	84.0	94.1	98.0	94.3	88.8	83.0	78.0	80.0
ICE Brent	USD/bbl	100.0	102.5	85.0	112.0	109.3	107.0	100.0	106.0	99.0	97.0	93.0	97.0	93.0	111.7	108.7	103.0	95.0	90.0	85.0	85.0
Henry Hub Natural Gas	USD/MMBtu	4.70	4.65	N/A	3.55	3.85	5.40	4.90	4.90	4.80	4.50	4.40	4.50	4.60	2.75	3.73	5.00	4.50	4.90	4.90	5.50
Base Metals				**LT Price**																	
LME Aluminum	USD/MT	1,750	1,820	2,200	1,827	1,815	1,750	1,770	1,790	1,810	1,830	1,860	1,890	1,900	2,049	1,808	1,780	1,870	1,950	2,100	2,200
LME Copper	USD/MT	7,300	6,600	6,200	7,096	7,161	7,200	7,250	6,800	6,650	6,800	7,000	7,200	7,500	7,945	7,169	6,975	7,125	7,700	8,000	8,200
LME Lead	USD/MT	2,070	2,300	2,200	2,116	2,134	2,150	2,050	2,150	2,250	2,350	2,100	2,200	2,370	2,072	2,135	2,150	2,255	2,350	2,400	2,360
LME Nickel	USD/MT	16,000	18,000	20,000	13,996	13,980	15,500	16,500	17,000	17,500	18,000	18,500	19,000	20,500	17,592	13,968	16,625	19,000	23,000	24,000	24,000
LME Tin	USD/MT	22,500	24,500	20,000	21,284	22,951	22,200	22,000	22,500	24,000	25,000	24,000	23,000	24,000	21,108	22,917	22,675	24,000	25,000	24,000	23,000
LME Zinc	USD/MT	2,050	2,150	2,100	1,896	1,932	2,030	2,050	2,080	2,100	2,150	2,200	2,250	2,300	1,963	1,929	2,065	2,225	2,300	2,350	2,320
Precious Metals				**LT Price**																	
COMEX Gold	USD/T. oz	1,320	1,350	1,050	1,330	1,274	1,280	1,300	1,310	1,320	1,330	1,340	1,360	1,400	1,669	1,274	1,305	1,360	1,380	1,400	1,420
Silver	USD/T. oz	20.4	21.2	16.5	21.5	20.8	20.2	20.3	20.4	20.7	21.2	21.9	22.4	23.2	31.2	20.8	20.4	22.2	22.5	23.0	23.1
Platinum	USD/T. oz	1,460	1,525	1,763	1,456	1,397	1,450	1,475	1,475	1,500	1,525	1,565	1,640	1,675	1,552	1,398	1,475	1,600	1,710	1,800	1,960
Palladium	USD/T. oz	770	860	780	729	725	735	790	830	850	875	900	900	925	645	725	800	900	935	980	980
Bulk Commodities				**5Y Cyclical**																	
Hard Coking Coal (benchmark Asia)	USD/MT	125	130	200	145	152	127	120	130	135	145	150	160	170	211	159	128	156	180	190	200
Thermal Coal Asia (NEWC)	USD/MT	75	80	90	77	82	79	77	75	80	88	84	82	85	94	84	78	85	85	90	100
Iron Ore Spot (TSI)	USD/MT	135	115	81	133	135	130	120	115	115	115	100	95	90	128	135	120	100	90	90	90
Agriculture																					
CBOT Corn	USd/bu	420	390	N/A	512	430	440	450	430	380	420	450	505	505	695	578	425	470	515	N/A	N/A
CBOT Wheat	USd/bu	610	655	N/A	650	655	615	635	655	655	650	640	635	635	750	684	640	640	615	N/A	N/A
CBOT Soybeans	USd/bu	1,265	1,000	N/A	1,405	1,304	1,260	1,250	1,135	1,075	1,050	1,050	1,000	1,100	1,465	1,406	1,180	1,050	1,075	N/A	N/A
CBOT Rice	USD/cwt	15.5	15.3	N/A	15.6	15.5	15.4	15.3	15.4	15.0	14.4	14.2	14.1	14.1	14.9	15.5	15.3	14.2	N/A	N/A	N/A
NYB-ICE Cotton	USd/lb	79.0	77.8	N/A	85.6	80.3	79.0	78.0	80.5	75.0	75.0	75.0	75.0	75.0	80.0	83.3	78.0	75.0	N/A	N/A	N/A
Sugar#11	USd/lb	18.0	18.0	N/A	16.7	17.7	18.0	18.0	18.0	18.0	18.5	18.5	18.5	18.5	21.6	17.5	18.0	18.5	N/A	N/A	N/A
ICE Coffee	USd/lb	120	130	N/A	118	110	120	125	130	133	130	130	130	130	175	126	128	130	N/A	N/A	N/A
ICE Cocoa	USD/MT	2,600	2,700	N/A	2,420	2,706	2,550	2,550	2,700	2,600	2,600	2,600	2,600	2,600	2,348	2,405	2,600	2,600	N/A	N/A	N/A

Source: Citi Research, *subject to revision

Figure 46. Citi Global Economics Team For Informational Purposes Only

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Appendix A-1

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