Economics

27 April 2012 | 18 pages

Emerging Markets Daily and Week Ahead

CEEMEA Edition

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- **Next Week's Key Events** — We have two rate-setting meetings scheduled next week: For **Romania**, we think the benign inflation outlook in the near term and the NBR's concerns about the economic recovery are likely to maintain its easing bias during the remainder of the year. Similarly, we think **Czech Republic**'s central bank will keep the policy rate at 0.75%.

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Figure 1. Event Calendar

Time	Country	Indicator	Period	Actual	Citi	Market	Previous (revision)
Yesterday's events							
	Turkey	Inflation Report	Apr		-	-	-
08:30	South Africa	Producer Prices (%YoY)	Mar	7.2	-	8.0	8.3
Today's events							
08:00	Hungary	Unemployment Rate (%)	Mar		11.8	11.7	11.6
08:00	Slovakia	Producer Prices (%YoY)	Mar		-	-	3.8

Source: National Sources, Bloomberg, Citi Investment Research and Analysis (CIRA)

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

Focus on Turkey

Will CBT's hawkish talk translate into action?

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The CBT's much awaited new Inflation Report was released yesterday. When compared with the January Report, the CBT's new Inflation Report portrays a more hawkish Central Bank, which signals that it prefers revising its policy stance to revising its inflation forecast. This should provide some relief to those investors who were fearful of major forecast revisions despite earlier remarks by senior CBT officials suggesting that the Bank strictly prefers revising its policy stance to revising its inflation forecast.

Despite some changes in the CBT's assumptions, the Bank keeps its year-end projection for 2012 at 6.5%, while revising its 2013 forecast slightly to 5.2% from 5.1%. We note that the CBT's year end inflation projection is considerably more optimistic than that of the consensus (7.6%). Specifically, the new Report envisions inflation to be (with a 70% probability) in the range of 5.3% and 7.7% at end-2012 with a midpoint of 6.5%. Concerning 2013, the CBT foresees inflation to be (with a 70% probability) in the range of 3.4 % and 7.0% at end-2013 with a midpoint of 5.2%. These projections are based on the assumption of more frequent reliance on additional monetary tightening and an annual rate of credit growth of 14% (vs. 15% in the January Inflation Report).

Although the emerging picture from the new Inflation Report should support the current positive market sentiment, we question the feasibility of the Bank's optimistic year-end inflation forecast. We welcome the CBT's revealed preference of pursuing a tighter monetary policy to steer inflation closer to its projection. However, this is a risky strategy, which could further undermine the CBT's inflation-fighting credentials, if year-end inflation comes in well above the Bank's projection but closer to the consensus.

Figure 2. Evolution of CBT's Inflation Forecasts (mid-point, %)

	Apr-12	Jan-12	Oct-11	Jul-11	Apr-11
2012	***6.5***	6.5	5.2	5.2	5.2
2013	***5.2***	5.1	...	...	...
Medium-term	***5.0***	5.0	5.0	5.0	5.0

Source: CBT

Figure 3. CBT's Forecast Performance (%)

	Year-end Projections in Inflation Report (%YoY)				Outturn	Target
	I (January)	II (April)	III (July)	IV (October)		
2012	6.5	6.5				***5.0***
2011	5.9	6.9	6.9	8.3	**10.4**	***5.5***
2010	6.9	8.4	7.5	7.5	**6.4**	***6.5***
2009	6.8	6.0	5.9	5.5	**6.5**	***7.5***
2008	5.5	9.3	10.6	11.1	**10.1**	***4.0***
2007	5.1	5.8	6.0	7.3	**8.4**	***4.0***
2006	5.5	5.6	9.8	9.9	**9.7**	***5.0***

Source: CBT

Looking ahead, we believe that the CBT will continue to adjust its policy stance in accordance with the lira's performance and global economic conditions. The lira permitting, we think that the CBT will be inclined to refrain from a sustained period of tightening for the reasons that we discuss in our full note. In practice, however, we think that the CBT doesn't have much 'wiggle room' to ease unless capital flows rise considerably, as the Bank struggles to target both the exchange rate and inflation.

More importantly, there is evidence suggesting that the CBT's excessive discretion in the conduct of monetary policy has been hurting the bond market. In this regard, we argue that the heavy domestic debt redemption in 2013 will pose an additional challenge to the CBT, which could force the Bank to normalize monetary policy by the end of 2012.

Country Analysis

Czech Republic

Government likely to survive today's confidence vote

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Today's confidence vote should ease recent political uncertainty for a while. The exact time of vote is uncertain, but late afternoon seems to be more likely given the weekend. On Monday, the coalition, which is comprised of ODS, +TOP09 and Deputy PM Mrs. Karolina Peake's platform gained a majority in Parliament of 102 Deputies. While Peake's platform had not been able to establish an official caucus (due to insufficient numbers), Prime Minister Petr Necas reduced his demands for the minimum number of MPs that he would be satisfied with. He now appears content with the 8 MPs from Mrs. Peake's platform alongside the two MPs from VV, though this could become a source of tension going forward, particularly if the deal with the Churches ends up being discussed in Parliament. There are 4 additional independent MPs (ex. ODS and ex. VV) who have indicated they could support the government in the case of selected legislation.

Despite this, we expect Czech political woes will return to the limelight given the government's small majority and the upcoming autumn elections. Although the government has the support of 102 MPs, and although the coalition no longer has to contend with its somewhat unpredictable coalition partner, VV, passing legislation could still be a painful process. We argue that with such a tight majority, all legislation is likely to have to be reapproved, as it is expected to be rejected by the left-wing dominated Upper House. Moreover, we expect coalition tensions to remain as the coalition parties are likely to lose local and Senate elections unless there is a substantial improvement in the communication of the reforms. Therefore, an early election in 2Q13 after the presidential election in February 2013 is still an option to the general election that would take normally place June 2014.

Figure 4. Overview of MPs' positions in the Lower House of Parliament

200 Deputies	*as suggested by pre-election polls **	as of 26 Apr 2012	election in June 2010	*election in June 2006*
ODS	*42*	51	53	*81*
TOP 09	*28*	41	41	*-*
Peak´s platform (ex VV)	*0*	8	-	
2 MPs from VV		2	-	
Coalition	***86***	**102**	**118**	***100***
Independents (2exODS+2exVV)		4	-	*2*
VV (incl. Mr. Barta,less 2MP)	*0*	11	24	*-*
CSSD (+1 ex VV)	76	55	56	*74*
LEV21 (ex CSSD)		2	-	*-*
Communists	38	26	26	*26*
Opposition	**114**	**83**	**82**	***100***
KDU-CSL (centrist)	*13*	-	-	*13*
Greens	*4*	-	-	*6*

Source: CZSO and CIRA calculation based on STEM, CVVM and Factum/Median. Note: *We include parties that have more than 3.9%. Gap between opposition and coalition in 2012 reflects independents and VV, who could support the government in some cases. Independents are: 2012 – 2 ex-ODS and 2 ex-VV, 2006-10 – 2 ex-CSSD.

Jordan

Prime Minister Awn al Khasawneh resigned

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Prime Minister Awn al Khasawneh resigned on 26 April. Khasawneh, who was reportedly out of the country when he tendered his resignation, was appointed to the post in October, and was due to complete his first parliamentary session in charge on that day. The PM had come under increasing criticism for not pushing forcefully enough on political reform, most recently in relation to a recent draft electoral law that was roundly criticized by opposition groups.

We argued in the last Emerging Markets Macro and Strategy Outlook that the electoral reform law had been seen as a litmus test of Khasawneh's reformist credentials, and dissatisfaction with the draft could threaten support for the current government, raising the chances of another cabinet reshuffle. Mr Khasawneh was reportedly opposed to a Royal Decree, issued on the day of his resignation, extending the current parliamentary session to 25 June. Political tensions had ramped up ahead of the PM's resignation as the government announced a long-awaited electoral reform law.

Reform of the electoral system has been a long-standing demand of the protestors, who first began taking to the streets last February. We have previously argued that the extent to which the opposition would continue to show goodwill to Prime Minister Awn al-Khasawneh's government, appointed last October amid popular unrest, would largely depend on his handling of reforms, the first indication of which would come in the guise of the electoral law. While the law scraps the one-person-one-vote system that has been unpopular with opposition, it scarcely increases the representation of political parties in parliament, with only 15 of the 138 seats allocated for parties, and each party only allowed to field a maximum of five candidates. The bill sparked demonstration by opposition members in Amman, and we believe may have been a factor behind the PM's resignation.

Ukraine

Trip Notes

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Ukraine's external accounts remain the main source of economic vulnerability. The current account deficit widened last year to $9bn (5% GDP) and looks set to widen further in 2012 towards $14bn (8% GDP). In 2011 pressure on the current account came from three main sources. The first was the stronger recovery of consumer spending in the aftermath of the 2009 recession, which had seen private consumption contract by 15%. The overall rise in domestic spending helped to push GDP growth to 5.2% last year. The second was the effect of construction activity relating to this year's Euro 2012 football tournament, which could have boosted last year's current account deficit by $2bn. The third was the rise in the cost of energy imports, which rose to $14bn in 2011.

The rise in the 2012 current account deficit comes from several sources. Although the construction activity relating to Euro 2012 isn't a source of pressure on this year's current account deficit – indeed, local expectations are for a rise in tourism inflows of some $300-400mn – the continuing rise in the current account deficit will be the result of several factors. In the first place, there is a growing gap between supply and demand in the economy: although retail sales and other indicators of consumer demand remain strong, the industrial sector is weak: production growth turned negative in March 2012.

Second, energy costs continue to rise. Ukraine paid an average of $278/tcm for its gas imports last year, but prices so far in 2012 have been much higher: $416/tcm in Q1 and $425 in Q2. Finally, the current account deficit will be the victim of fiscal expansion in the run-up to the 28 October parliamentary elections. The government increased the 2012 budget by $4bn (2.5% GDP) in order to finance increased expenditure on pensions, on mortgage subsidies, and on compensation for depositors, on gas exploration, infrastructure and healthcare. Although the finance ministry claims that tax collection improvements and a new customs code will finance most of these expenditures, it probably makes sense to assume some fiscal expansion this year.

The capital account could also be a source of stress. The NBU's data show that Ukraine had $57bn worth of external debt coming due in the 12 months following January 2012. Adding this to the current account deficit creates a total external financing need of some $71bn, which is more than twice the current level of FX reserves ($31bn). This is a very conservative estimate of Ukraine's external financing needs, however: of the $57bn of debt coming due, only $22.3bn constitutes repayments of medium-term debt, and some $17.5bn of the short-term debt represents trade finance obligations with a high probability of rollover. That said, there are two kinds of payments that Ukraine needs to make that have achieved high visibility. The first is the repayment of a $2bn loan from VTB in June; and the second is repayments to the IMF of some $3bn during the second half of the year. As for the VTB loan, the finance ministry notes that there is 'broad agreement' on VTB refinancing of this repayment. Refinancing by the IMF, however, is much less likely.

Major policy moves are unlikely before the October election, making IMF disbursements unlikely. The IMF has made it clear on several occasions that Ukraine needs to commit to reducing gas subsidies for households and industry before the Fund will resume disbursements to Ukraine (the deficit of Naftogaz this year is likely to be around 1% GDP). This seems very unlikely in the near term, given the political cost of such a move, and so Ukraine's payments to the IMF will need to be financed elsewhere. The finance ministry indicated that the government is considering three possible sources of financing for its payments to the IMF: issuance of Eurobonds, issuance of RUB-denominated bonds; or further issuance of local USD-denominated bonds. MoF estimates banks have about USD9bn in their pockets and already borrowed about USD1.5bn in 1Q. We were unable to get any clarity about recent press reports suggesting that Ukraine has asked the IMF to reschedule its payments to the Fund. An IMF mission is due in Ukraine at the end of May as a part of Article IV.

Ukraine's willingness to raise domestic gas prices is probably linked to its efforts to renegotiate the price it pays Gazprom to import gas from Russia. A lower import price would ease pressure on the government to raise domestic prices, but here again it seems that little progress is expected this side of October. The finance ministry did stress, however, that its strategy – at least in the medium term – is to increase Ukraine's domestic gas production in order to reduce dependence on imports from Russia.

In spite of all these vulnerabilities – the size of the external financing requirement and pre-election policy paralysis – there is little evidence of imminent financial stress. The National Bank reported that total year-to-date foreign exchange inflows were $43.2bn compared to total outflows of $38.6bn. This surplus has helped to finance an increase in official FX reserves so far this year, permitting the NBU to ease monetary conditions. The lack of pressure on the FX market may be partly helped by an improvement in the private sector's foreign exchange balance sheet. The total unhedged FX debt of the private sector has fallen from $38bn in October 2008 to less than $14bn now, and households are net FX creditors to the tune of $6bn.

Domestic liquidity seems strong for now. Although the NBU's financing of the government has increased in recent months – through direct ownership of government debt on its balance sheet, and by financing the purchase of government debt by state-owned banks – the government has also been able to increase its issuance to commercial banks. Of the UAH 40bn the government plans to issue this year, UAH 25bn has already been issued. (Of this UAH 40bn, the government claims that only UAH 15bn will be needed to finance the UAH 25bn deficit, since privatization revenues are on track to reach the UAH 10bn target). So far at least, then, financing for the government seems available on increasingly easy terms.

Exchange rate stability remains an important objective for the authorities, and low inflation helps them achieve this in the short run. With food accounting for more than half the CPI basket, a good harvest in 2011 has been instrumental in pushing headline inflation to 1.9% YoY in March from double digits in early 2011. The National Bank's medium-term inflation target is 'below 5%' and it forecasts inflation to rise to 7.9% by the end of this year. Signs that inflation is heading above this forecast will induce the NBU to tighten policy, not least because higher inflation might threaten the authorities' desire to maintain exchange rate stability. The actual pace of inflation during 2012 will obviously depend heavily on the quality of the harvest, but the government's pre-election fiscal expansion is likely to create inflationary pressure, even though domestic credit growth remains weak.

There is a widespread expectation of rising financial stress as elections approach. Rising inflation later this year could be the trigger for more speculative demand for foreign exchange. There appears to be a consensus in Kiev that the exchange rate's current stability will not be sustainable in the latter part of the year – which is reflected in the steepness of the NDF curve – and this consensus means that the demand for foreign exchange might be triggered sooner (ie in the summer) rather than later (ie closer to the elections). In any case the election is likely to remain a source of uncertainty: there is a relative balance of popular support between the coalition around the governing Party of Regions and the opposition, particularly after the recent formation of a coalition between Yulia Timoshenko's Fatherland party and Arseny Yatsenyuk's Front for Change. However, the Party of Regions probably has access to much greater financial resources than the opposition, and this probably makes political continuity more likely than not after October.

Risks seem reasonably priced for now. Ukraine remains very vulnerable to shifts in global risk appetite, and Ukrainian asset prices are likely to get noisier in the second half of the year. Continued financial stability in the very short run, though, seems probable.

Next Week's Key Events

- We have two rate-setting meetings scheduled next week. For **Romania**, we think the benign inflation outlook in the near term and the NBR's concerns about the economic recovery are likely to maintain its easing bias during the remainder of the year. Similarly, we think **Czech Republic**'s central bank will keep the policy rate at 0.75%.

Figure 5. Next Week's Key Events

Time	Country	Indicator	Period	Citi Forecast	Mkt Forecast	Previous	Comment
During the week							
3 – 6	South Africa	Unemployment Rate (%)	1Q	-	-	23.9	-
3 – 7	Egypt	Gross Official Reserves (US$ bn)	Apr	-	-	15.1	-
4 – 5	Russia	Consumer Prices (%YoY)	Mar	3.7	-	3.7	-
Monday 30 April							
-	Israel	Unemployment Rate (%)	Mar	-	-	6.5	-
07:00	South Africa	Private Sector Credit (%YoY)	Mar	-	8.6	7.9	-
08:00	Slovakia	Consumer Confidence	Apr	-	-	-32.3	-
08:00	Slovakia	Industrial Confidence	Apr	-	-	3.0	-
08:00	Turkey	Trade Balance (US$ bn)	Mar	-7.4	-	-5.9	If we are right, the 12-month trade gap will narrow to about US$101.5bn from US$104bn in February.
13:00	Poland	NBP Inflation Expectations (%)	Apr	-	-	4.2	-
13:00	South Africa	Budget (ZAR bn)	Mar	-	-	5.8	-
13:00	South Africa	Trade Balance (ZAR bn)	Mar	-	-4.3	-7.5	-
Tuesday 1 May							
-	Public Holiday for many EMs		-	-	-	-	-
Wednesday 2 May							
-	Czech Rep.	Budget Balance (CZK bn)	Apr	-	-	-22.7	-
-	Hungary	PMI (SA)	Apr	-	-	56.8	-
-	Kazakhstan	Consumer Prices (% YoY)	Apr	-	4.5	4.6	-
-	Kazakhstan	Producer Prices (% YoY)	Apr	-	7.5	10.0	-
-	Romania	Interest Rate Announcement (%)	May	5.00	-	5.25	We believe that the NBR is likely to maintain its easing bias during the remainder of the year.
-	Romania	International Reserves (€bn)	Apr	-	-	38.8	-
-	Russia	Reserve Fund (US$bn)	Apr	-	-	62.3	-
-	Russia	Wellbeing Fund (US$bn)	Apr	-	-	89.5	-
-	Slovakia	Budget Balance, ytd (€ bn)	Apr	-	-	-1.2	-
06:00	Russia	PMI Manufacturing	Apr	-	-	50.8	-
08:00	Poland	PMI Manufacturing	Apr	-	49.2	50.1	-
08:00	Turkey	PMI Manufacturing	Apr	-	-	49.6	-
08:00	Hungary	Producer Prices (%YoY)	Mar	6.7	6.6	6.2	Oil prices and currency weakening likely contributed to rising PPI in March.
08:30	Czech Rep.	PMI Manufacturing	Apr	51.5	-	52.1	March confidence indicator signals worsened PMI.
10:00	South Africa	Kasigo PMI	Apr	-	53.6	55.1	-
Thursday 3 May							
-	Egypt	Deposit Rate (%)	May	-	-	9.25	-
-	Egypt	Lending Rate (%)	May	-	-	10.25	-
08:00	Hungary	Trade Balance (€mn)	Feb F	690		690	No big change expected from the first estimate.
08:00	Romania	Producer Prices (%YoY)	Mar	-	-	5.9	-
08:00	Slovakia	Retail Sales (%YoY)	Mar	0.8	-	2.0	Consumer confidence improved in March but there is one less working day.
08:00	Turkey	Consumer Prices (%YoY)	Apr	10.9	-	10.4	While inflation is likely to peak in April, it will remain elevated (close to 10%) until the last quarter of the year
		- Core (%YoY)	Apr	7.8	-	7.9	
08:00	Turkey	Producer Prices (%YoY)	Apr	-	-	8.2	-
10:00	South Africa	Naamsa Vehicle Sales (%YoY)	Apr	-	-	4.8	-
12:00	Czech Rep.	Interest Rate Announcement (%)	May	0.75	0.75	0.75	Rate hike not until 2H13, we expect.
Friday 4 May							
06:00	Russia	PMI Services	Apr	-	-	55.2	-
08:00	Romania	Retail Sales (%YoY)	Mar	-	-	3.0	-

Source: National Statistics Offices, National Central Banks, Bloomberg, Citi Investment Research and Analysis

Country Previews

Czech Republic

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	Period	Citi Forecast	Market Forecast	Previous Release
Interest Rate Announcement (%)	May	0.75	0.75	0.75

Source: Czech Statistical Office, Czech National Bank, Bloomberg and Citi Investment Research and Analysis

Interest Rate Announcement, May

We still believe that the CNB will keep the policy rate on hold at 0.75% until mid-2013, as domestic demand continues to remain lacklustre. Even though CPI inflation is above the CNB target, this is unlikely to force the central bank into a rate hike. March CPI overshot the CNB February forecast by 0.5% pt, accelerating to 3.8%YoYm reflecting higher food (eggs) and fuel prices on the top of the VAT hike (1.1pt). We expect CPI growth to ease to 3.6%YoY in April as food prices eased in April. However, inflation is likely to remain elevated, 3.5%YoY on average, until 4Q12, when we expect it to ease below 3%. For now, we expect inflation to ease to 2.8%YoY in 2013, when the VAT rates will be hiked by another 1% pt.

The Bank Board members' opinons over the interest rate outlook are unchanged. CNB Governor Miroslav Singer mentioned, in his presentation after the March Bank Board meeting, that the majority of the Board has doubts about a cut in the CNB policy rate later this year as was suggested by CNB February forecast. Mrs. Eva Zamrazilova is again likely to vote for a hike as she argued that effects of supply pressures on CPI inflation are not temporary, which could erode price expectations. Prof. Kamil Janacek sees an option to hike in 4Q12 and says that 4-5% nominal wage growth would represent upside risk (Bloomberg, 25 Feb). By contrast, two other members, Vicegovernor Vladimir Tomsik (HN, 23 Feb) and Mr. Lubomir Lizal (Reuters, 23 Feb) are likely to prefer stable rates given asymmetric risks.

Prof. Janacek and Mr. Tomsik see a risk that the hike in VAT in two consecutive years could lead to increased price expectations, which would be a challenge for the CNB (its model suggests a 20bp cut on a 9-month horizon after a VAT hike of 1%pt). However, there is a clear message that wage developments are likely to be key in future. The CNB February forecast expected 2.5%YoY growth of nominal wage in 2012 and -0.7% in real terms. Otherwise, we do not expect major changes to the forecast given the almost unchanged assumption of external demand, slightly lower 3M EURIBOR and EURCZK, which are almost in line with previous forecasts in early 2Q12. The major challenge will be to cope with higher VAT-related CPI.

The CNB press conference starts at 1:30pm LDT on 3 May and the outcome, including the new trajectory of 3M PRIBOR and other key forecast items, will be published before 2pm. The Minutes and the Inflation Report with a detailed forecast will be published next Friday at 8am LDT. The next monetary policy meeting is scheduled on 28 June.

Romania

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	Period	Citi Forecast	Market Forecast	Previous Release
Interest Rate Announcement (%)	May	5.00	-	5.25

Source: National Institute of Statistics, National Bank of Romania, Bloomberg and CIRA

Interest Rate Announcement, May

In our opinion, inflation readings in the first three months of the year appear conducive to further easing. Moreover, the benign inflation outlook in the near term – coupled with the Bank's concerns about the economic recovery – leads us to

believe that the NBR is likely to maintain its easing bias during the remainder of the year so long as exchange rate stability is not threatened.

Slippages in the implementation of fiscal policy and structural reforms supported by the EU-IMF program ahead of the upcoming elections emerge as additional risk factors that would lead the NBR to revise its current stance. Against this backdrop, we expect the NBR to cut its policy rate by 25bp to 5% at the May Board Meeting. In our view, further easing beyond May will depend on the performance of the leu.

Turkey

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	Period	Citi Forecast	Market Forecast	Previous Release
Trade Balance (US$ bn)	Mar	-7.4	-	-5.9
Consumer Prices (%YoY)	Apr	10.9	-	10.4
- Core (%YoY)	Apr	7.8	-	7.9

Source: Turkish Statistical Institute, Central Bank of the Republic of Turkey (CBT), Bloomberg and Citi Investment Research and Analysis

Trade Balance, Mar

Our analysis points to a trade gap of around US$7.4 billion in March, which is considerably narrower than the deficit seen in the same period of 2011 (US$9.8bn). If we are right, the 12-month trade gap will narrow to about US$101.5bn from US$104bn in February. Our projection is based on an estimated pick-up in exports (about 9%YoY) and a notable decline in imports (about 7%YoY). Despite the noted encouraging backdrop, leading indicators point to a partial reversal of this favorable trend, as we expect to see a slowdown in exports and a pick-up in imports in the coming months. Looking ahead, we expect the current account gap to shrink this year to about 8.7% of GDP from about 10% of GDP in 2011. Stronger-than-expected growth and higher-than-expected oil prices emerge as the key risk factors to our current account balance forecast for 2012.

Consumer Prices, Apr

Our analysis suggests that inflation will rise notably to about 10.9%YoY in April from 10.4%YoY in March due mainly to the energy price hikes at the end of March. Leading indicators suggest that, at -0.5%MoM, food inflation continued to remain benign in April. A similar picture is likely for core inflation (I index), which is expected to drop slightly to 7.8%YoY in April (from 7.9%YoY in March). As usual, volatility in unprocessed food prices remains the wildcard in our estimates. Looking ahead, we expect inflation to fall to single digits in May on the back of favorable base effects before rising back up to about 10% in June and remain at elevated levels until October. We maintain our year-end inflation projection at 7.5%, as we continue to see the risks as tilted to the upside.

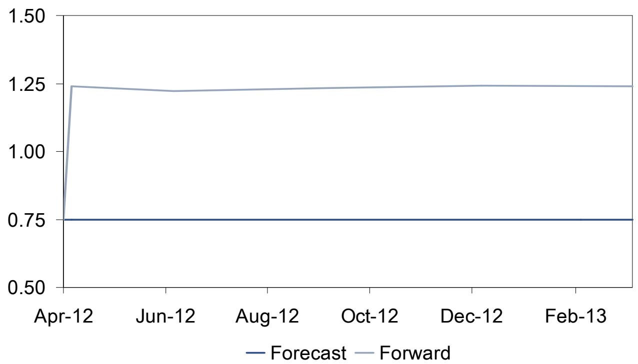
Local Interest Rates

Figure 6. CEEMEA Policy Rates and Movement

			Last Move		Likely Next Move		End-2012
		Spot	Date	Amount (bp)	Date	Amount (bp)	Forecast
Czech Republic	2 Week Repo Rate	0.75	Jun-11	-25	2H13	25	0.75
Hungary	14-Day Repo Rate	7.00	Dec-11	50	Dec-12	-25	6.75
Israel	Base Rate	2.50	Jan-12	-25	2Q12	-25	2.25
Poland	7-Day Repo Rate	4.50	Jun-11	25	Feb-13	-25	4.50
Romania	Refinancing Rate	5.25	Mar-12	-25	May-12	-25	5.00
Russia	Policy Rate	8.00	Dec-11	-25	Jun-12	-25	7.75
S. Africa	Average Repo rate	5.50	Nov-10	-50	Sep-12	50	6.50
Turkey	1-week repo rate	5.75	Aug-11	-50	3Q13	25	5.75
Ukraine	Discount Rate	7.50	Mar-12	-50	Nov-12	25	7.75

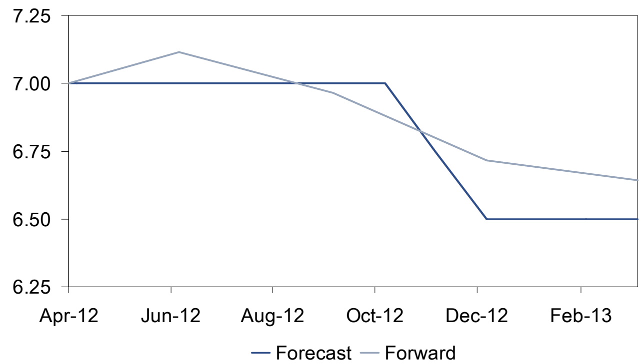
Source: Bloomberg, Citi Investment Research and Analysis

Figure 7. Czech Republic (Percent)



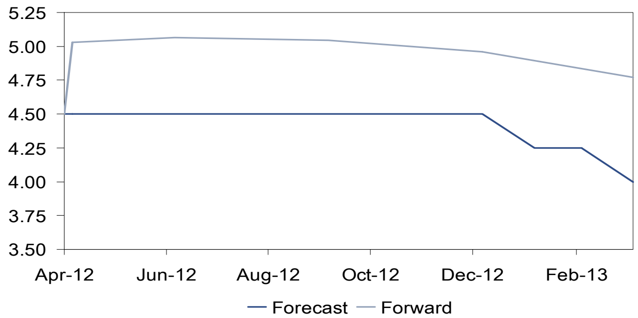
Source: Bloomberg, Citi Investment Research and Analysis. Note: 50bp spread 3M PRIBOR vs. CNB's rate.

Figure 8. Hungary (Percent)



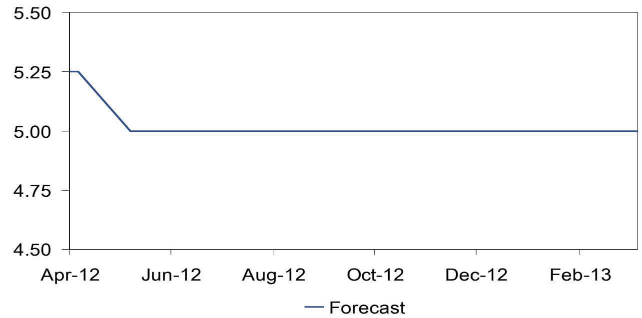
Source: Bloomberg, Citi Investment Research and Analysis

Figure 9. Poland (Percent)



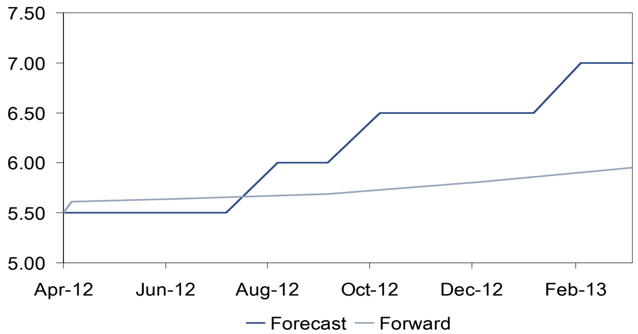
Source: Bloomberg, Citi Investment Research and Analysis

Figure 10. Romania (Percent)



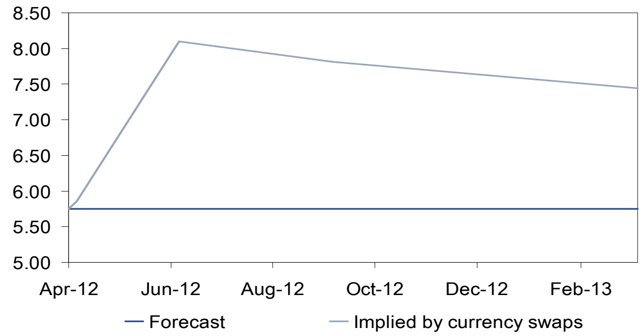
Source: Bloomberg, Citi Investment Research and Analysis

Figure 11. South Africa (Percent)



Source: Bloomberg, Citi Investment Research and Analysis

Figure 12. Turkey (Percent)



Source: Bloomberg, Citi Investment Research and Analysis

Global Foreign Exchange Forecasts

Figure 13. Citi Foreign Exchange Forecasts (as of 13 April)

			Market data			Forecasts			Returns**
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term	3 mos rtn	12 mos rtn
G10									
Euro	EURUSD	1.31	1.31	1.31	1.30	1.25	1.30	-0.6%	-4.8%
Japanese yen	USDJPY	81	81	80	81	80	85	0.2%	-0.5%
British Pound	GBPUSD	1.59	1.58	1.58	1.57	1.53	1.65	-1.2%	-2.9%
Swiss Franc	USDCHF	0.92	0.92	0.91	0.92	0.97	0.96	0.5%	6.0%
Australian Dollar	AUDUSD	1.04	1.03	1.00	1.03	1.00	0.90	0.4%	0.0%
New Zealand Dollar	NZDUSD	0.82	0.82	0.80	0.82	0.78	0.63	0.1%	-3.0%
Canadian Dollar	USDCAD	1.00	1.00	1.01	0.99	0.98	0.97	-1.0%	-3.2%
Dollar Index*	DXY	79.89	79.86	79.74	80.22	82.24	80.17	0.4%	3.1%
G10 Crosses									
Japanese yen	EURJPY	106	106	106	105	100	111	-0.5%	-5.3%
Swiss Franc	EURCHF	1.20	1.20	1.20	1.20	1.21	1.25	-0.1%	1.0%
British Pound	EURGBP	0.82	0.83	0.83	0.83	0.81	0.79	0.5%	-1.9%
Swedish Krona	EURSEK	8.87	8.91	9.02	8.85	8.75	8.65	-0.7%	-3.0%
Norwegian Krone	EURNOK	7.58	7.61	7.72	7.55	7.50	7.50	-0.8%	-2.8%
Norwegian Krone	NOKSEK	1.17	1.17	1.17	1.17	1.17	1.15	0.1%	-0.1%
Australian Dollar	AUDNZD	1.26	1.25	1.24	1.26	1.28	1.43	0.2%	3.0%
Australian Dollar	AUDJPY	84	83	80	83	80	77	0.5%	-0.6%
Asia									
Chinese Renminbi	USDCNY	6.30	6.31	6.33	6.31	6.22	6.11	-0.1%	-1.8%
Hong Kong Dollar	USDHKD	7.76	7.76	7.75	7.75	7.76	7.75	-0.1%	0.1%
Indonesian Rupiah	USDIDR	9177	9277	9598	9400	9350	9300	1.3%	-2.6%
Indian Rupee	USDINR	51.3	52.5	54.7	53.5	54.0	51.0	1.9%	-1.2%
Korean Won	USDKRW	1135	1142	1156	1150	1110	980	0.7%	-4.0%
Malaysian Ringgit	USDMYR	3.06	3.08	3.12	3.08	2.98	2.90	0.1%	-4.4%
Philippine Peso	USDPHP	42.7	43.0	43.4	43.0	42.0	41.5	0.1%	-3.1%
Singapore Dollar	USDSGD	1.25	1.25	1.24	1.25	1.21	1.17	0.2%	-2.8%
Thai Baht	USDTHB	30.8	31.0	31.4	31.0	30.2	30.0	0.2%	-3.7%
Taiwan Dollar	USDTWD	29.5	29.4	29.2	29.7	28.8	28.2	0.9%	-1.2%
EMEA									
Czech Koruna	EURCZK	24.8	24.8	24.9	24.5	25.2	24.0	-1.2%	1.2%
Hungarian Forint	EURHUF	298	302	313	298	285	290	-1.2%	-8.8%
Polish Zloty	EURPLN	4.18	4.23	4.36	4.15	4.12	3.90	-1.9%	-5.5%
Israeli Shekel	USDILS	3.75	3.77	3.80	3.80	3.95	3.90	0.8%	3.8%
Russian Ruble	USDRUB	29.6	30.0	31.2	29.8	32.1	32.2	-0.8%	3.1%
Russian Ruble Basket		35.3	33.7	34.2	35.6	33.8	35.8	36.5	-1.1%
Turkish Lira	USDTRY	1.80	1.84	1.94	1.75	1.85	1.82	-4.6%	-4.6%
South African Rand	USDZAR	7.95	8.06	8.40	8.10	8.40	9.00	0.5%	0.1%
LATAM									
Brazilian Real	USDBRL	1.84	1.87	1.95	1.84	1.77	1.70	-1.6%	-9.5%
Chilean Peso	USDCLP	485	491	506	495	500	490	0.7%	-1.2%
Mexican Peso	USDMXN	13.2	13.3	13.6	13.2	12.5	12.2	-0.6%	-8.0%
Colombian Peso	USDCOP	1779	1800	1848	1830	1800	1850	1.7%	-2.6%

* The DXY forecasts are implied from the forecasts of the constituent crosses.

** Returns are relative to forwards

Source: Citi Investment Research and Analysis. Note: These forecasts are a joint venture between Citi's foreign exchange, global macro and technical strategy groups and our developed and emerging markets economists. Details are available in Global Foreign Exchange: Forecasts April 2012, published on 13 April 2012.

Selected Market Indicators

Figure 14. Selected Market Indicators

Currency Performance

	Spot (Prev Close)	Change (%) 1 Day	1 M
Europe (vs euro)			
Bulgaria Lev	1.96	0.00%	0.01%
Croatia Kuna	7.53	-0.01%	0.27%
Czech Koruna	24.8	0.08%	0.77%
Hungary Forint	288	-0.17%	-1.21%
Poland Zloty	4.18	-0.12%	0.74%
Romania Lei	4.37	-0.03%	0.03%
Russia Ruble	38.9	0.38%	0.48%
Serbia Dinar	112	0.05%	0.70%
Turkey Lira***	1.77	0.06%	-0.91%
Ukraine Hryvnia***	8.04	0.05%	0.16%
Middle East (vs USD)			
Bahrain Dinar	0.38	0.00%	0.00%
Egypt Pound	6.04	-0.05%	0.08%
Israel Shekel	3.75	-0.01%	0.87%
Jordan Dinar	0.71	0.07%	0.08%
Kuwait Dinar	0.28	-0.05%	0.03%
Lebanon Pound	1504	0.00%	0.00%
Qatar Rial	3.64	0.00%	0.00%
S Arabia Riyal	3.75	0.00%	0.00%
UAE Dirham	3.67	0.00%	0.00%
Sub-Saharan Africa (vs USD)			
Botswana Pula	0.14	0.29%	-1.30%
Ghana Cedi	1.82	-1.70%	2.29%
Kenya Shilling	83.1	0.00%	0.06%
Malawi Kwacha	166	0.00%	0.35%
Nigeria Naira	157	-0.01%	-0.33%
S. Africa Rand	7.74	-0.23%	1.96%
Tanzania Shilling	1588	0.16%	-0.35%
Zambia Kwacha	5148	0.00%	-2.83%
Commodities			
Gold $/troy oz.	1644	0.00%	-2.21%
Platinum $/troy oz.	1553	-0.15%	-6.12%
Silver $/troy oz.	30.75	0.13%	-5.65%
Copper US$/ton	8304	0.00%	-3.03%
Tin US$/lb	1138	0.00%	-0.52%
Natural Gas US$	2	0.00%	-3.85%
Oil US$ Brent Crude	119.2	-0.03%	-5.43%
CRB All Commod	302	0.00%	-4.23%

Local Rates*

	Last Close	Change 1 Day	1 M
Europe			
Bulgaria	0.24	0.00	-0.03
Croatia	0.41	0.00	-0.02
Czech	0.74	0.00	0.03
Hungary	6.77	0.00	0.46
Poland	4.30	0.00	-0.25
Romania	3.58	0.00	-0.22
Russia	5.94	0.00	-0.13
Serbia	NA	NA	NA
Turkey	10.21	0.00	-0.72
Ukraine	2.30	0.00	-0.10
Middle East			
Bahrain	0.50	0.00	0.00
Egypt	9.74	0.00	-0.03
Israel (1M)	2.50	0.00	0.00
Jordan	3.38	0.00	0.04
Kuwait (1M)	0.56	0.00	NA
Lebanon	NA	NA	NA
Qatar	NA	NA	NA
S Arabia	0.59	0.00	0.01
UAE (1M)	0.98	0.00	0.00
Sub-Saharan Africa**			
Botswana	NA	NA	NA
Ghana	NA	NA	NA
Kenya	NA	NA	NA
Malawi	NA	NA	NA
Nigeria (1M)	NA	NA	NA
S. Africa (1M)	5.49	0.00	0.00
Tanzania	11.75	0.00	5.50
Zambia	NA	NA	NA
FX Volatility			
EUR - CZK	6.97	0.07%	-2.24%
EUR - HUF	10.43	0.00%	-5.87%
EUR - PLN	8.27	-1.61%	-9.37%
EUR - RON	3.50	0.00%	-22.22%
USD - RUB	8.70	0.78%	-12.76%
USD - ZAR	14.11	0.52%	-3.39%
USD - TRY	8.56	-1.01%	-16.50%
USD - ILS	6.87	0.44%	-10.95%

Equities

	Last Index Level	Change (%) 1 Day	1 M
Europe			
Bulgaria SOFIX	302	0.00%	-2.22%
Croatia CROBEX	1813	0.00%	0.42%
Czech PX50	935	0.00%	-5.57%
Hungary BUX	18224	0.00%	-3.02%
Poland WIG020	2186	0.00%	-5.93%
Romania BSE	5283	0.00%	0.29%
Russia RTS (US$)	1584	0.02%	-6.82%
Serbia BELEX15	493	0.00%	-6.69%
Turkey ISE	59941	0.00%	-4.08%
Ukraine PFTS	530	0.00%	0.19%
Middle East			
Bahrain BHSE All-Sh	1148	0.00%	-0.42%
Egypt HERMES	489	0.00%	-0.79%
Israel TA-100	1065	0.00%	1.13%
Jordan ASE	2003	0.00%	0.75%
Kuwait KWSE	6337	0.00%	2.42%
Lebanon BLOM (US$)	1177	0.00%	-3.29%
Qatar DSM 20	8653	0.00%	-1.37%
S Arabia TASI	7542	0.00%	-2.91%
UAE ADSMI	2512	0.00%	-2.42%
Sub-Saharan Africa			
Botswana DCIBT	7125	0.00%	1.07%
Ghana GSE	1066	0.00%	2.45%
Kenya NSEK	3580	0.00%	7.20%
Malawi	NA	NA	NA
Nigeria NGSE	21970	0.00%	5.04%
S. Africa JALSH	34029	0.00%	0.50%
Tanzania	NA	NA	NA
Zambia	NA	NA	NA
Major Indices			
US NYSE	1391	0.00%	-1.55%
US NASDAQ	3030	0.00%	-2.91%
UK FTSE 100	5719	0.00%	-2.57%
France CAC 40	3233	0.00%	-6.81%
Germany DAX	6705	0.00%	-5.29%
Japan Nikkei 225	9561	0.00%	-6.77%
FTSE Global	375	0.15%	-2.87%
FTSE Emerging	604	0.00%	-2.55%

Source: Bloomberg, Citi Investment Research and Analysis. Note: Equities are local currency unless otherwise stated; FX Volatility is the mid price At-the Money (ATM) 1M term; * Overnight unless otherwise stated. **Weekly data on 3 month rates except S Africa. *** Turkey Lira & Ukraine Hryvnia are against the US dollar.

Recent publications

Russia	Trip Notes April 23-24: Oil price keeping Russia attractive for now	Elina Ribakova & Natalia Novikova	26-Apr-12
Turkey	Will CBT's actions match recent more hawkish statements?	Ilker Domac & Gultekin Isiklar	25-Apr-12
Egypt	Muddling through moves mainstream	David Cowan	16-Apr-12
Sub-Saharan Africa	Thinking about the growth story	David Cowan	11-Apr-12
Turkey	When does the "CBT put" on the lira kick in?	Ilker Domac & Gultekin Isiklar	10-Apr-12
Turkey	Deciphering the CBT's monetary policy	Ilker Domac & Gultekin Isiklar	21-Mar-12
Central Europe	Adding fuel to the fire – Oil "Shock" in CEE	Piotr Kalisz, Eszter Gargyan & Jaromir Sindel	09-Mar-12
Turkey	Trip Notes: Muddling through seems to be the modus operandi	Ilker Domac & Gultekin Isiklar	08-Mar-12
Israel	Trip Notes: ILS likely to stay an underperformer	David Lubin	01-Mar-12
Hungary	More storms to follow the silence	Eszter Gargyan	01-Mar-12
Poland	Don't believe in second-round effects	Piotr Kalisz & Cezary Chrapek	28-Feb-12
Turkey	Lira carry trade: Not what it used to be	Ilker Domac & Gultekin Isiklar	15-Feb-12
Emerging Markets	Deleveraging lessons from the 3Q 2011 BIS data	David Lubin, Johanna Chua, Joaquin Cottani	09-Feb-12
Central Europe	FX Survey – When pain brings also some gain	Piotr Kalisz, Eszter Gargyan & Jaromir Sindel	01-Feb-12
Kazakhstan	Stable amid global headwinds	Elina Ribakova & Natalia Novikova	30-Jan-12
Czech Republic	Loan to the IMF - too much ado for nothing?	Jaromir Sindel	27-Jan-12
Czech Republic	Tensions in coalition likely to continue in 2012	Jaromir Sindel	11-Jan-12
Poland	FX Interventions – Either big or none	Piotr Kalisz & Cezary Chrapek	03-Jan-12
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East Africa Macro View	The Shilling sell off: What caused it and has it now ended?	David Cowan	13-Dec-11
Central and Eastern Europe	Trip Notes: 2012 likely to be more challenging than 2011	Piotr Kalisz, Eszter Gargyan & Jaromir Sindel	13-Dec-11
Russia	2012: Oil resistance could soften growth deceleration, but political risks are on the rise	Elina Ribakova & Natalia Novikova	13-Dec-11
Hungary	Trip Notes	Eszter Gargyan	09-Dec-11
Slovenia	General election outcome: Not easy to set up bold coalition	Jaromir Sindel	05-Dec-11
Poland	Less worried about fiscal numbers	Piotr Kalisz & Cezary Chrapek	02-Dec-11
Turkey	Narrowing current account deficit will take much more than just a weaker lira	Ilker Domac & Gultekin Isiklar	29-Nov-11
Emerging Markets	Towards Financial Repression? A View from EM	David Lubin	23-Nov-11
Hungary	Moving closer to sub-investment grade	Eszter Gargyan	14-Nov-11
Emerging Markets	Is the market under-pricing Middle East risk?	David Lubin	10-Nov-11
Belarus	Devaluation II … to be continued?	Elina Ribakova & Natalia Novikova	10-Nov-11
Poland	Waiting for rating decisions	Piotr Kalisz & Cezary Chrapek	09-Nov-11
Russia	Consumption to remain strong, for now…	Elina Ribakova & Natalia Novikova	17-Oct-11
Turkey	Investors remain cautious about the lira	Ilker Domac & Gultekin Isiklar	17-Oct-11
Russia	Trip Notes, October 12-13	Elina Ribakova & Natalia Novikova	14-Oct-11
Ukraine	Between a rock and a hard place	Elina Ribakova & Natalia Novikova	10-Oct-11
Turkey	What drives the size of CBT's FX sale auctions?	Ilker Domac & Gultekin Isiklar	5-Oct-11
Russia	That sinking feeling	Elina Ribakova & Natalia Novikova	29-Sep-11
Jordan	Bottom line improvement, but we're still cautious	Farouk Soussa	28-Sep-11
Iraq	2012 Budget: Pushing the envelope	Farouk Soussa	28-Sep-11
Russia	Ruble falling ahead of oil on global financial uncertainty	Elina Ribakova & Natalia Novikova	23-Sep-11
Hungary	Removing FX mortgages	Piotr Kalisz & Cezary Chrapek	20-Sep-11
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Russia	Ruble is less about interventions and more about rates	Elina Ribakova & Natalia Novikova	16-Sep-11
Central and Eastern Europe	Trip Notes: Living in a weak growth world	Piotr Kalisz, Cezary Chrapek & Jaromir Sindel	14-Sep-11
South Africa	Reviewing research on the SA output gap	Jean-Francois Mercier	07-Sep-11
Poland	Primer on Elections	Piotr Kalisz & Cezary Chrapek	06-Sep-11
Czech Republic	S&P raises foreign rating by two notches	Jaromir Sindel	29-Aug-11
Russia	Downgrading the outlook on risks to oil and global growth	Elina Ribakova & Natalia Novikova	24-Aug-11
Poland	No easy cure for PLN weakness	Piotr Kalisz & Cezary Chrapek	16-Aug-11
South Africa	NHI – Devil still in detail… and implementation	Jean-Francois Mercier	16-Aug-11
Ghana	Is the glass half full, or half empty?	David Cowan	15-Aug-11
Israel	The protest movement and its consequences	David Lubin	09-Aug-11
Poland	Strong CHF to weigh on growth prospects	Piotr Kalisz & Cezary Chrapek	04-Aug-11
Czech Republic	Are we in for a prolonged period of a very low policy rate?	Jaromir Sindel	04-Aug-11
Russia	Trip Notes July 20-26: Waiting for the decision	Elina Ribakova & Natalia Novikova	01-Aug-11
Turkey	Trip Notes: Jittery markets awaiting policy response	Ilker Domac & Gultekin Isiklar	29-Jul-11

Figure 15. Citi CEEMEA Economics Team *For informational purposes only*

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Source: Citi Investment Research and Analysis.

Appendix A-1

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