30 July 2014 | 52 pages

Global

Global Economic Outlook and Strategy

Global Economic Outlook and Strategy - July 2014

- We are trimming our forecasts for global growth in 2014 (at current exchange rates) to 2.9%, down from 3.0% last month and 3.3% at the start of the year. For now, we are leaving our 2015 global growth forecast at 3.5% but there are various downside risks to that forecast including possible Russia spillovers, geopolitical issues, the sluggish pace of world trade growth, plus the possibility of a sharper short-term or medium-term slowdown in China.

- The sharp rebound in Q2 US real GDP growth, and solid job growth, reinforce our view that the Q1 weakness in GDP was just a temporary pothole rather than a precursor of sustained weakness. With supportive financial conditions, we expect continued US strong growth in H2 and into 2015. By contrast, we are further cutting forecasts for a range of EM countries, including Indonesia, Russia, Nigeria and Mexico amidst sluggish world trade growth and some country-specific factors. Against that, we are lifting our 2014 China growth forecast to 7.5% from 7.3% last month. China's authorities seem to be prioritizing their growth objective nearterm, with a continued emphasis on credit-driven investment expansion in order to ensure that YoY GDP growth does not fall below 7% on average in 2014-15. Reforms are proceeding slowly, and we are trimming our 2016-18 China GDP growth forecasts. We continue to expect only modest growth in the euro area, but within that there is a marked disparity between the rebounds in some periphery countries (eg Greece, Ireland, Portugal and Spain) and disappointment in Germany, France and Italy.

- After the persistent and widespread trend to monetary policy easing among advanced economies of recent years, much greater policy divergence is likely in the coming quarters. The prospect of sustained inflation undershoots is likely to prompt the ECB and BoJ to ease further through major asset purchase programs in Q4 (or perhaps early 2015). However, the UK economy continues to grow strongly, and the BoE is likely to start to hike rates late this year. Moreover, the Fed is likely to end asset purchases soon and we expect a gradual but extended US tightening cycle to start around mid-2015 and to carry the policy rate up to 2½%-3½% in 2017-18.

Figure 1. Currency and Interest Rate Forecasts, as of 30 July 2014

	Current	3Q 14F	4Q 14F	1Q 15F	2Q 15F	3Q 15F	4Q 15F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.75	1.00
10-Yr. Treasuries (Period Ave.)	2.47	2.60	2.85	3.00	3.05	3.15	3.20
Euro Area: US$/€	1.34	1.33	1.33	1.33	1.34	1.36	1.37
Euro Repo Rate	0.15	0.15	0.15	0.15	0.15	0.15	0.15
10-Yr. Bunds (Period Ave.)	1.12	1.25	1.45	1.50	1.55	1.55	1.60
Japan: Yen/US$	102	105	106	108	108	109	110
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.53	0.55	0.50	0.70	0.80	0.85	0.75

Source: Citi Research

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With thanks to Jan Maguire

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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 cutting 0.1 percent off our 2014 global growth forecast, reflecting further downgrades to some emerging markets, outweighing this month's upgrade to our 2014 China growth forecast. We do expect stronger global growth in 2015, but see a variety of downside risks to that forecast.
United States	The rebound in Q2 GDP supports our view that the Q1 weakness was temporary. We expect the economy to grow at an above-trend pace through 2015. Economic fundamentals have improved, fiscal drag is fading, and financial conditions are providing a significant tailwind to growth. Inflation is likely to remain quiet, despite some higher readings earlier this year. The Fed is in the process of revising its exit principles, but we do not expect the Fed to hike rates until the third quarter of 2015.
Euro Area	We are cutting our 2014-15 real GDP growth forecast by 0.1pp each year to 1.1% and 1.7%, respectively, expecting a 0.3% QQ gain in 2Q GDP. We also shave a tenth off our 2014 inflation forecast to 0.5%. We continue to expect the ECB to launch a large-scale asset purchase programme around December 2014, despite indications from various ECB members that it is "*not appropriate to think about any next steps at this stage*". The ECB's new 2015 meeting schedule does not yet show a calendar for the release of minutes from ECB policy meetings.
China	We upgrade our 2014 growth forecast from 7.3% to 7.5% to reflect higher-than-expected growth in 2Q and faster-than-expected credit growth. We also revise up our 2015 growth forecast slightly from 7.0% to 7.1%. Growth may stage a mild rebound in 2H, but headwinds from the property market correction will likely push growth down again in 2015.
Japan	While there are unlikely to be compelling catalysts for the markets in this summer, the coming autumn and winter will likely be eventful with key policy decisions in the offing. Most notably, PM Abe is expected to make a final decision in early December on whether to implement another consumption tax hike slated for October 2015
United Kingdom	The MPC are shifting their view, acknowledging that their previous assumption of a slowdown in the economy and job growth in H2 is unlikely to be correct. As a result, the Committee is edging towards tightening. We continue to look for the first rate hike in Q4 this year, with rates subsequently rising further and faster than markets expect.
Canada	The BoC has shifted from extreme concern about low inflation towards fears of subpar global growth that would endanger the Canadian expansion. We continue to anticipate the next rate hike in 3Q 2015.
Australia	The June quarter inflation provided a timely reminder to markets that the RBA is unlikely to cut rates further.
Emerging Asia (ex China)	Growth disappointments (except China) and benign inflation remains the theme for most countries in the region, which has led to a more dovish tilt among many central banks. We think Korea will do a one-off rate cut in August, while the possibility of rate cut in India could surface if we see faster than expected disinflation and Malaysia is likely to pause after one more hike. Indonesia saw a post-election relief rally, but policy will depend on how quickly fuel subsidy reforms can commence.
CEEMEA	CEEMEA remains a region with diverse challenges. Central banks in Hungary and Israel continue to cut rates against a background of very weak inflation pressures; while the South African Reserve Bank and the Russian Central Bank have both hiked, in spite of particularly weak economic activity in both countries. But overall, stable US Treasury yields and the prospect of further ECB easing should stabilise financial markets across the time zone.
Lat Am	For Brazil, we continue to expect GDP growth to be only 0.9% and 1.2% in 2014 and 2015, respectively. Policy rate cuts now look less probable than one month ago, but they should not be completely ruled out. In Mexico, the data confirm an increase in growth during 2Q. We do not expect additional monetary easing. The outlook for Argentina continues to be very challenging, particularly given the high risk of an imminent sovereign default. We continue to expect GDP to shrink by about 1% this year and inflation to rise above 80% next year.

Source: Citi Research

Figure 3. Selected Countries — Industrial Production Forecasts (Pct.), 2013-2015F

	2013	2014F	2015F
World	2.3%	3.7%	4.1%
United States	2.9	3.9	3.4
Japan	-0.6	3.4	1.1
Euro Area	-0.7	1.2	4.0
United Kingdom	-0.4	2.2	2.0
Canada	1.8	2.2	2.5
China	9.7	9.1	8.5
India	0.4	3.9	5.9
Korea	0.3	3.0	5.8
Brazil	2.3	-1.5	1.0

Source: Citi Research

Overview: Growth Divergences

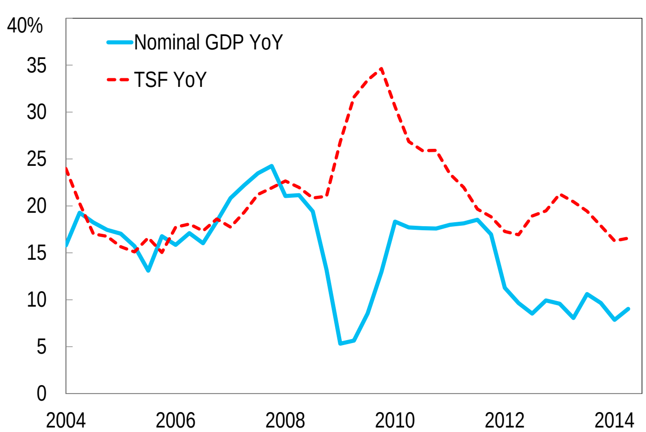
Michael Saunders

We are trimming our forecasts for global growth, and now look for global growth (at current exchange rates) of 2.9% this year, down from 3.0% last month and 3.3% at the start of the year. Several factors are at work. With the US economy rising modestly in H1 as a whole, we have shaved our forecast for 2014 calendar year US real GDP growth to 2.1% from 2.2% last month. This estimate is down from 3.1% at the start of the year. In addition, we are further cutting forecasts for a range of EM countries, including Indonesia, Russia, Nigeria and Mexico. Against that, we are lifting our 2014 China growth forecast to 7.5% from 7.3% last month, while cutting forecasts for 2016-18. For now, we are leaving our 2015 global growth forecast at 3.5% but there are various downside risks to that forecast. We highlight four themes that shape our outlook, concerning China, Russia, world trade and AE monetary policy divergence.

China — Nearterm Resilience, Medium-Term Downside

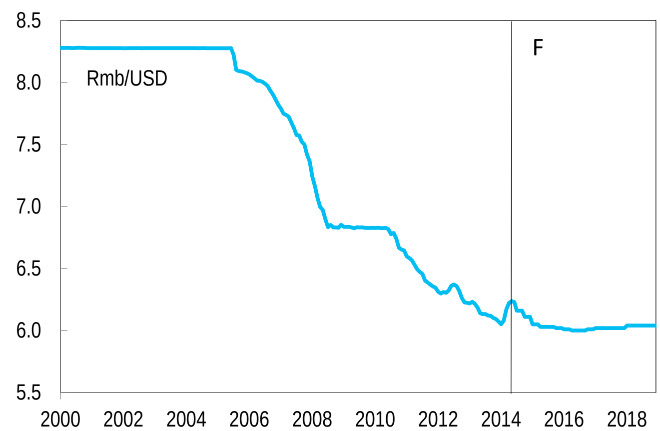
Over the last six years, a massive credit-driven investment surge has allowed China to sustain rapid economic growth, with (using IMF data) GDP per head in 2014 up by 60% from the 2008 level, the second biggest increase of any country in the world[1] and far ahead of catch-up gains in most other countries with similar 2008 levels of income per head. The flipside of this surge is that China's private debt/GDP ratio (the sum of the unconsolidated debts of the household and non-financial corporate sectors) has ballooned from 117% at end-08 to 186% at end-13, and now exceeds the recent peaks in the US and euro area (174% in Q3-09 and 172% in Q2-10 respectively). Moreover, expressed in USD terms, the level of investment spending in China (roughly $4500bn) now is about 40% bigger than investment spending in the US. Investment per head in China has surged from roughly $600 per year in 2004 to about $3300 this year — now slightly more than half the EU average (roughly $6000 per head per year).

Figure 4. China — Nominal GDP and TSF YoY, 2004-14



TSF Total Social Financing. Sources: DataStream and Citi Research

Figure 5. China — RMB/USD Exchange Rate, 2000-2018F Nominal GDP and TSF YoY, 2000-18F



F Citi forecast. Sources: DataStream and Citi Research

Many observers have worried about China's ability to achieve the authorities' triple aim of rapid GDP growth, financial stability, and structural reforms to shift the economy away from investment and towards consumer spending (which may hurt growth at least temporarily)[2]. In practice, China's authorities seem to be prioritizing their growth objective nearterm, with a continued emphasis on credit-driven

[1] Turkmenistan is top, with a rise of 64%.

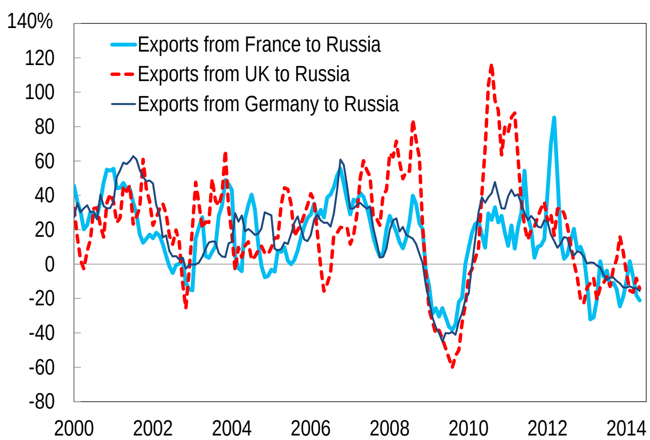
[2] See, for example, "*World Economic Outlook*", IMF, April 2014.

investment growth in order to ensure that YoY GDP growth does not fall below 7% in 2014-15[3]. Reforms (eg hukou reform, fiscal reform and SOE reform) are proceeding slowly. The flow of net new total social financing (TSF, a broad credit aggregate) totaled Rmb 4930bn in Q2 this year, up from Rmb3900bn a year earlier, with its YoY growth rate (16.6% YoY) at roughly twice that of nominal GDP (9.0% YoY in Q2). In theory, the authorities may be able to manage a relatively smooth transition from credit-led and investment-led growth to a “new normal” of 5-6% growth led by consumer spending and services in the next five or so years – avoiding a credit crunch and major cyclical downturn. Something along these lines is our base case. In order to support growth as credit stimulus eventually fades, we expect that the Chinese authorities will no longer tolerate a trend of significant RMB appreciation: we expect the exchange rate in 2015-18 on average to remain in a Rmb6-6.30/USD range, similar to the levels seen so far this year. But, there remain sizeable risks that the economy will slow more abruptly in the next few years, if accumulating losses from poorly-allocated investment and credit undermine the current growth model while growth dividends from the reform agenda prove distant.

Russia Weakness and Spillovers

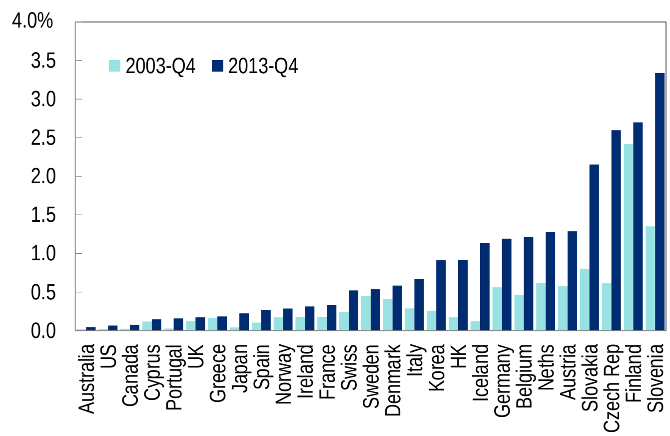
Since the last GEOS, we have cut our 2014 Russia growth forecast to 0.7% from 1.0% previously (and 2.6% at the start of the year), in response to heightened geopolitical risks, the mounting economic sanctions imposed by the US and EU[4], plus the recent monetary policy tightening[5]. There may well be further downside risks given geopolitical uncertainties. There are some signs of adverse spillovers from Russian economic weakness and geopolitical uncertainties to Western Europe, with exports to Russia in March-May down 21% YoY for France, 16% for Germany and 14% for the UK.

Figure 6. Germany, France and UK — Exports of Goods to Russia YoY (3-Month Averages), 2000-14



Sources: DataStream and Citi Research

Figure 7. Selected Countries — Exports of Goods to Russia as Pct GDP, 2003-13



Sources: IMF, DataStream and Citi Research

The impact on overall economic growth is probably limited so far, reflecting the modest scale of trade, FDI and financial links: Exports of goods to Russia are less than 1% of GDP for the US and euro area as a whole, although higher in Germany,

[3] See “Balancing on the Steep, Narrow Path Between Economic Growth and Structural Reform”, *China Macro View*, Minggao Shen and Shuang Ding, 16 July 2014, Citi.

[4] See “*New US/EU sanctions on Russia impact short- & long-term energy prospects; persistent Russia/West tensions to continue*”, Tina Fordham et al, 29 July 2014, Citi.

[5] See “CBR Hikes Policy Rates On Heightened Geopolitical Risks”, *Russia Macro Flash*, Ivan Tchakarov, 25 July 2014, Citi.

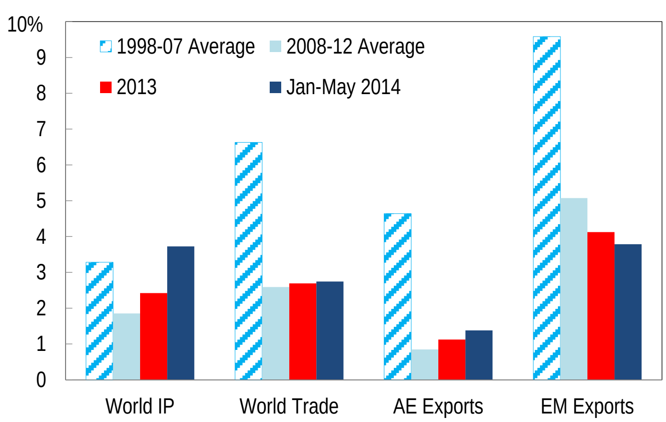
Belgium, Netherlands, Austria and Finland (as well as Slovakia, Slovenia and the Czech Republic). FDI exposure to Russia (including loans) is below 1% of GDP for the advanced economies as a whole, but notably higher for the Netherlands, Cyprus and Luxemburg, reflecting their status as corporate HQs for global firms. Banking sector claims on Russia are below 1% of GDP for Germany, the UK and US, but above 1.5% of GDP for Austria, the Netherlands, France and Sweden.

Nevertheless, risks remain that European growth could be much more heavily affected — especially if energy flows (imports from Russia account for 17% of EU energy use) are disrupted, with the greatest risks associated with an interruption of Russian gas exports. And, more broadly, there are separate geopolitical risks to oil and gas production at least in Iraq and Libya, and possibly in the Gulf as well, with scope for clear adverse effects on global growth should oil prices rise sharply because of supply interruptions, or the fear of such interruptions.

World Trade Growth to Remain Sluggish

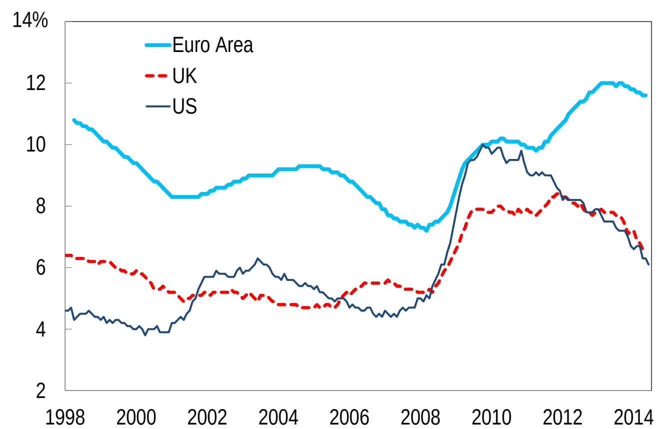
CPB data show that, even while global industrial production growth is running at 3.7% YoY (above the pre-crisis average of 3.3% YoY over 1998-2007), world trade growth remains sluggish, with the volume of world trade rising 2.7% YoY in January-May this year, matching last year's average pace and only marginally above the 2008-12 average (2.6% YoY). By contrast, during 1998-07, world trade growth averaged 6.6% YoY, twice the pace of global IP growth. Moreover, the gap between YoY EM export growth and AE export growth has narrowed from an average of 5 percent in 1998-07 to about 2 percent now. As we have argued in recent months, we believe that the pre-crisis trends (world trade growth roughly twice GDP growth) reflected unusual conditions (high import intensity of AE growth, sharp declines in global tariffs and shipping costs, easy credit availability, expansion of output in low-wage economies) that are unlikely to recur in coming years. As a result, we expect that world trade growth will remain sluggish, and well below the pre-crisis norm. A shift to lower trade elasticities may not necessarily be a major threat to overall global growth, but may imply further disappointment in various export-oriented countries (both EMs and AEs) that have been counting on an external boost.

Figure 8. Global — YoY Growth of Industrial Production and World Trade, 1998-2013



Sources: CPB and Citi Research

Figure 9. US, Euro Area and UK — Unemployment Rates, 1998-2014



Sources: DataStream and Citi Research

AE Economic Divergence Likely to Drive Policy Divergence

We expect growth divergences among AEs to widen again in coming quarters after the unusual Q1 mix of strong growth in Japan, modest growth in the euro area and a sharp drop in US GDP. The disappointing pace of US real GDP growth early this year probably was a temporary pothole that is now past rather than a precursor of further weakness. Business surveys and employment data suggest that the economy's underlying momentum is solid, while financial conditions remain supportive. We look for US growth of 3%+ QoQ SAAR in H2 this year, with the jobless rate likely to fall below 6% by yearend and to about 5.5% by end-2015. Against this backdrop, we continue to expect that the Fed will start to hike rates around mid-15, with an extended tightening cycle that will carry rates up to 2½%-3½% in 2017-18. Moreover, the UK economy continues to grow strongly and — with the MPC acknowledging that growth in GDP and employment is likely to continue to outpace their forecasts — the MPC are likely to start to hike rates late this year. By contrast, in the euro area and Japan, the conditions for further central bank easing are coming together in our view. With the ECB and (until late 2012) the BoJ having eased less aggressively and effectively than the Fed and BoE over recent years, the euro area and Japanese economies face weaker growth, high unemployment and the prospect of medium-term inflation undershoots.

In Japan, recent data suggest that Q2 GDP fell sharply, roughly reversing the Q1 gain (6.7% QoQ SAAR), with consumption suffering by more than just the payback to frontloaded demand ahead of the April consumption tax hike and consistent with an additional Keynesian transmission channel for fiscal policy through household disposable income. For example, the level of retail sales in May (nominal terms) remains 1.5% below the H2-13 average (before the Q1 surge). Moreover, the recent stabilization in the Tokyo core CPI — which suggests that the price level has fallen slightly since the tax-related jump in April — implies that inflation is likely to undershoot the BoJ's forecasts. As a result, we continue to expect the BoJ will ease again (probably in Q4 this year or perhaps early 2015) through a mix of asset purchases. In the euro area, our bottom-up estimates point to Q2 growth of about 0.3% QQ, but with a marked disparity between sluggish trends in the big 3 (Germany, France and Italy) and stronger growth rebounds in some periphery countries (eg Spain, Greece, Ireland and Portugal). With modest overall economic growth, the large output gap and weakness in import prices is likely to produce an extended undershoot of the "below but close to 2%" inflation target. We look for inflation of just 0.9% in 2015 and indeed are cutting a tenth off our 2014 inflation forecast to 0.5% and expect a new multi-year low of 0.3% YY in July. We continue to expect the ECB will launch an ABS purchase program in the next few months and — prompted by a further downgrade to its inflation forecast — start a large-scale QE programme (ie unsterilized asset purchases) around yearend.

Such a divergent path for AE central bank monetary policies (tightening in the US and UK but easing in the euro area and Japan) over the next 12-15 months would be unusual but is not without precedent. For example, during the period Oct-2003 to Nov-2005, the Fed hiked rates by 300bp, and the BoE hiked by 125bp and then cut by 25bp while the ECB kept rates on hold. Conversely, in the period June-07 to July-08, the Fed cut by 325bp and the MPC cut by 50bp whereas the ECB hiked by 50bp. Moreover, with the wide gap in economic performance among AEs, such monetary policy divergence would be wholly justified in our view. For example, the gap between the jobless rate in the euro area (11.6%) and the US (6.1%) is already the greatest since 1999 (although this discrepancy is exaggerated by the drop in the US participation rate), while that between the euro area and UK (6.5%) is the greatest since data began in 1998. Even with the central bank moves that we expect, these economic divergences are likely to expand further in the next year.

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

	GDP Growth						CPI Inflation						Central Bank Policy Rates					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Global	2.6	2.9	3.5	3.6	3.6	3.4	2.6	2.9	3.0	3.2	3.2	3.3	2.14	2.35	2.45	2.74	3.09	3.33
Based on PPP weights	*3.0*	*3.3*	*3.9*	*4.0*	*4.1*	*3.9*	*3.1*	*3.3*	*3.4*	*3.6*	*3.7*	*3.7*	*2.71*	*2.97*	*3.14*	*3.41*	*3.69*	*3.74*
Industrial Countries	1.3	1.9	2.5	2.5	2.3	2.0	1.3	1.6	1.7	1.5	1.5	1.7	0.46	0.37	0.54	1.05	1.61	2.18
United States	2.2	2.1	3.2	3.2	2.7	2.2	1.2	1.6	1.8	2.2	2.3	2.2	0.25	0.25	0.48	1.46	2.48	3.25
Japan	1.5	1.4	0.9	1.2	1.2	1.0	0.4	2.8	1.7	1.6	0.7	1.0	0.10	0.10	0.10	0.10	0.10	0.30
Euro Area	-0.4	1.1	1.7	1.9	1.9	1.8	1.4	0.5	0.9	1.2	1.5	1.7	0.50	0.19	0.15	0.16	0.42	0.92
Canada	2.0	2.3	2.7	2.7	2.6	2.4	0.9	1.9	1.9	2.1	2.0	2.0	1.00	1.00	1.19	2.13	2.50	2.75
Australia	2.4	3.5	3.0	3.1	3.2	3.2	2.4	2.6	2.5	2.4	2.4	2.4	2.69	2.50	2.88	3.50	4.00	4.25
New Zealand	2.8	3.5	2.9	2.4	2.6	2.7	1.1	2.1	2.2	2.2	2.2	2.4	2.50	3.31	4.06	4.44	4.50	4.75
Germany	0.5	2.0	2.4	2.5	2.4	2.2	1.5	1.2	2.0	2.2	2.3	2.4						
France	0.4	0.7	1.3	1.7	2.0	1.9	1.0	0.7	1.2	1.3	1.4	1.5						
Italy	-1.8	0.1	1.1	1.2	0.9	0.7	1.3	0.2	-0.2	0.2	0.8	1.2						
Spain	-1.2	1.3	1.9	2.2	1.9	1.8	1.5	0.0	0.2	0.5	0.6	0.8						
Greece	-3.9	0.3	1.3	1.4	1.5	1.6	-0.9	-1.5	-1.5	-1.0	-0.2	1.0						
Ireland	0.2	6.1	3.9	3.8	3.9	4.0	1.0	0.3	1.0	1.1	1.6	1.7						
Portugal	-1.4	1.1	2.0	1.9	1.9	2.0	0.4	-0.3	-0.6	-0.2	0.3	0.8						
Netherlands	-0.7	0.6	1.4	1.7	2.0	2.1	2.6	0.4	1.2	1.5	1.6	1.8						
Belgium	0.2	1.3	1.5	1.6	2.0	2.1	1.2	0.7	1.1	1.8	1.6	1.9						
Denmark	0.4	1.4	1.7	1.8	1.8	2.0	0.8	0.7	1.2	1.6	1.9	2.0	0.20	0.20	0.20	0.25	0.55	1.10
Norway	2.0	2.0	2.2	2.5	2.9	2.9	2.1	2.0	2.1	2.1	2.2	2.4	1.50	1.50	1.50	1.80	2.49	3.09
Sweden	1.6	2.2	2.8	2.8	2.9	2.7	0.0	-0.1	1.1	2.4	2.3	2.2	0.99	0.52	0.26	0.92	1.68	2.30
Switzerland	2.0	2.1	2.6	2.7	2.3	2.0	-0.2	0.0	0.9	1.1	1.2	1.2	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	1.8	3.4	3.7	2.7	2.3	2.5	2.6	1.7	2.0	2.0	1.9	2.0	0.50	0.54	1.67	2.50	2.71	3.21
Emerging Markets	4.6	4.5	5.0	5.1	5.4	5.3	4.7	4.9	5.0	4.7	4.8	4.7	4.78	5.29	5.27	5.24	5.25	4.95
China	7.7	7.5	7.1	6.7	7.1	6.8	2.6	2.3	2.6	2.9	3.3	3.3	3.00	3.00	2.84	2.63	2.75	3.00
Taiwan	2.1	3.2	3.7	4.2	4.5	4.5	0.8	1.5	2.0	1.8	1.8	1.8	1.88	1.88	1.97	2.38	2.88	3.38
India	4.7	5.6	6.5	7.0	7.1	7.1	9.5	8.0	6.5	6.5	6.5	6.5	7.75	8.00	8.00	7.50	7.00	7.00
Indonesia	5.8	5.1	5.2	5.4	5.5	5.8	6.4	6.5	6.7	6.0	5.3	4.8	4.65	5.81	6.00	6.00	6.00	6.00
Korea	3.0	3.9	4.0	4.8	3.6	3.8	1.3	1.9	2.9	3.1	3.0	2.9	2.56	2.38	2.44	3.25	3.88	4.00
Czech	-0.9	2.4	2.7	3.0	3.1	3.2	1.4	0.5	1.8	1.6	2.0	2.0	0.05	0.05	0.08	0.75	1.54	2.54
Hungary	1.1	2.9	1.9	1.6	1.7	2.0	1.7	0.3	2.3	2.9	2.3	1.8	4.38	2.33	2.31	3.49	3.71	4.50
Poland	1.6	3.4	3.6	3.6	3.5	3.2	0.9	0.3	2.0	2.7	2.5	2.5	2.95	2.50	2.54	3.38	3.96	3.29
Romania	3.5	3.0	3.4	3.7	3.7	3.7	4.0	1.7	3.4	2.6	2.5	2.5	4.69	3.50	4.50	5.00	5.00	5.00
Russia	1.3	0.7	2.3	2.6	2.6	2.6	6.8	7.0	5.6	5.1	4.7	4.5	5.50	7.38	6.37	5.56	4.83	4.56
Turkey	4.0	3.5	3.5	3.8	4.0	4.0	7.5	8.8	7.4	7.0	6.8	6.5	6.16	9.34	10.75	9.88	9.50	9.00
Nigeria	5.5	6.0	6.4	7.0	6.2	6.8	8.5	8.7	10.7	9.2	9.9	9.2	12.00	12.00	11.75	11.00	9.00	9.00
South Africa	1.9	2.0	2.8	3.3	4.3	4.1	5.8	6.5	5.8	5.5	5.9	5.9	5.00	5.71	6.42	7.92	8.00	8.00
Argentina	3.0	0.0	1.0	-2.0	3.5	3.0	10.6	NA	29.8	42.5	40.0	25.0	17.16	26.37	34.16	37.00	37.00	0.00
Brazil	2.3	0.9	1.2	2.5	3.0	3.0	6.2	6.4	6.4	5.9	5.5	5.5	8.44	10.92	12.33	12.00	11.50	11.50
Mexico	1.1	2.7	3.9	4.4	4.5	4.6	3.8	3.9	3.4	3.6	3.6	3.6	3.94	3.21	3.25	4.19	4.67	5.71
Venezuela	1.3	-1.0	1.9	1.9	1.9	1.9	38.5	61.7	82.5	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)					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Global	0.7	0.7	0.5	0.4	0.2	0.1	-4.1	-3.7	-3.3	-2.9	-2.7	-2.6	88	86	86	86	84	84
Based on PPP weights	*0.5*	*0.5*	*0.3*	*0.2*	*-0.1*	*-0.1*	*-4.0*	*-3.7*	*-3.4*	*-3.1*	*-2.9*	*-2.8*	*80*	*80*	*80*	*79*	*78*	*77*
Industrial Countries	-0.2	-0.1	-0.1	0.1	0.1	0.2	-5.5	-4.6	-3.8	-3.4	-3.0	-2.8	115	113	113	112	111	111
United States	-2.4	-2.5	-2.3	-1.8	-1.7	-1.4	-7.4	-6.4	-5.6	-5.6	-5.4	-5.4	105	107	107	107	106	106
Japan	0.7	-0.1	0.0	0.0	0.2	0.2	-9.8	-8.0	-6.2	-5.8	-5.4	-5.0	241	243	247	248	251	254
Euro Area	2.4	2.9	3.0	2.9	2.8	2.6	-3.0	-2.7	-2.4	-1.8	-1.4	-1.0	95	97	97	96	94	93
Canada	-3.2	-2.7	-2.5	-2.2	-1.9	-1.8	-0.9	-0.1	0.3	0.4	0.4	0.4	94	92	90	89	87	84
Australia	-3.2	-1.8	-2.0	-2.3	-2.6	-2.7	-1.2	-3.1	-1.8	-1.0	-0.6	-0.2	30	32	34	33	33	34
New Zealand	-3.4	-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	7.6	7.0	6.9	6.3	6.0	5.7	0.0	0.2	0.2	0.0	0.0	-0.1	78	77	74	71	69	67
France	-1.4	-0.7	-0.1	0.4	0.1	-0.1	-4.3	-4.2	-3.6	-2.8	-1.9	-1.1	93	97	98	98	97	95
Italy	1.0	1.7	1.8	1.9	1.9	1.8	-2.8	-3.0	-2.9	-2.2	-1.7	-1.3	133	138	139	139	139	137
Spain	0.8	0.6	0.5	0.5	0.5	0.6	-7.1	-5.7	-4.9	-3.8	-3.2	-2.6	94	99	101	102	102	102
Greece	0.8	2.1	2.4	2.4	2.4	2.3	-12.7	-2.0	-2.2	-1.5	-1.1	-0.5	175	180	181	181	178	174
Ireland	4.4	4.3	5.2	5.0	5.1	5.1	-6.7	-1.8	0.8	1.9	2.9	4.1	123	114	108	102	94	85
Portugal	0.5	0.5	0.7	0.9	1.3	1.5	-5.0	-4.2	-3.2	-2.6	-2.2	-1.7	129	136	134	132	130	128
Netherlands	10.8	10.6	10.1	9.7	9.2	8.8	-2.4	-2.8	-2.3	-1.8	-1.3	-1.0	74	75	75	74	73	71
Belgium	-1.9	-0.3	0.4	0.6	0.5	0.2	-2.7	-2.5	-2.0	-1.3	-0.5	0.4	101	102	101	99	96	92
Denmark	7.2	6.7	5.6	5.4	5.5	5.4	-1.0	-1.3	-2.7	-1.7	-1.0	-0.9	45	45	46	46	46	45
Norway	11.1	11.4	11.7	12.0	12.1	12.5	10.9	11.0	11.0	10.0	10.0	9.0	NA	NA	NA	NA	NA	NA
Sweden	6.4	6.3	6.0	6.1	6.0	6.0	-1.3	-1.6	-0.8	-0.3	0.5	1.2	39	40	39	37	35	32
Switzerland	12.0	11.1	10.2	9.9	10.5	10.5	0.2	0.7	1.1	1.7	1.8	0.9	48	46	45	44	42	44
United Kingdom	-4.5	-3.8	-4.1	-4.3	-4.0	-3.8	-7.1	-5.3	-3.4	-1.2	-0.4	0.6	94	95	94	92	89	85
Emerging Markets	2.0	1.9	1.5	0.8	0.3	0.0	-2.1	-2.3	-2.5	-2.3	-2.3	-2.3	45	45	45	45	45	44
China	2.0	2.0	2.0	1.5	1.0	1.0	-1.9	-2.1	-2.0	-2.0	-2.0	-2.0	54	54	54	53	53	52
Taiwan	11.7	11.0	10.2	8.0	8.0	8.0	-1.4	-1.4	-0.8	-0.6	-0.6	-0.6	40	40	39	39	39	38
India	-1.7	-1.9	-2.0	-2.0	-2.0	-2.1	-6.9	-6.7	-6.5	-6.2	-5.9	-5.5	69	68	66	65	63	61
Indonesia	-3.3	-3.0	-2.5	-2.7	-2.4	-2.0	-2.2	-2.4	-2.2	-1.9	-2.0	-2.0	24	26	25	25	25	25
Korea	6.1	4.9	3.1	2.3	1.6	0.8	1.0	0.9	1.5	1.7	1.9	1.7	33	31	29	27	26	25
Czech	-1.4	1.4	1.5	2.0	1.8	-0.3	-1.5	-2.0	-2.5	-2.4	-2.2	-2.0	46	45	45	46	46	46
Hungary	3.0	3.6	3.1	2.9	2.7	2.5	-2.2	-2.9	-2.9	-2.9	-3.0	-3.0	79	80	79	79	78	77
Poland	-1.3	-1.7	-2.8	-3.5	-3.6	-3.3	-4.3	5.2	-2.7	-2.6	-2.6	-2.6	54	48	47	46	46	45
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	42	42	41	40	39	39
Russia	1.5	2.7	1.9	0.6	-0.4	-1.4	-2.1	-4.4	-4.9	-1.1	-1.1	-1.1	7	10	13	13	12	12
Turkey	-7.9	-5.4	-5.8	-5.5	-5.3	-5.2	-1.2	-2.8	-3.2	-3.3	-3.3	-3.3	39	38	37	36	35	33
Nigeria	3.9	1.0	1.3	0.7	0.6	0.1	-1.6	-2.0	-1.8	-1.8	-1.6	-1.5	NA	NA	NA	NA	NA	NA
South Africa	-5.8	-4.9	-4.2	-3.4	-3.1	-2.7	-4.1	-4.0	-4.0	-3.6	-2.8	-1.8	46	47	48	49	49	49
Argentina	-0.7	-1.1	-1.2	3.0	1.0	1.0	-1.9	-2.4	-2.4	0.0	-0.5	-1.0	31	38	46	44	42	41
Brazil	-3.7	-3.7	-3.9	-3.9	-3.9	-3.8	-3.3	-3.9	-3.4	-3.4	-3.3	-3.3	57	57	58	58	58	58
Mexico	-2.0	-1.7	-1.7	-2.1	-2.4	-2.7	-2.3	-3.5	-3.0	-2.2	-2.0	-2.0	38	38	38	37	37	37
Venezuela	3.3	4.1	5.1	3.0	3.0	3.0	-11.9	-11.2	-10.3	-12.0	-12.1	-11.5	41	40	40	41	41	42

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. Source: Citi Research

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)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Global	0.1	-0.1				-0.1	0.1	-0.1	-0.1			-0.1
Based on PPP weights		*-0.1*				*-0.1*	*0.1*		*-0.1*			*-0.1*
Industrial Countries		-0.1							-0.2			
United States		-0.1				-0.1		-0.4	-0.8	-0.1		
Japan		-0.1						0.1	0.3			
Euro Area		-0.1	-0.1		-0.1			0.1	0.2		-0.1	-0.1
Canada					-0.1	-0.1		0.1	0.3			
Australia		0.1			-0.1			0.1	0.2			
New Zealand												
Germany		-0.2	-0.1			0.2		0.1	0.3		0.1	
France												
Italy		-0.1			-0.1			-0.2	-0.2			-0.1
Spain					0.2	0.2						
Greece		0.9	0.1		0.1	0.1					0.4	0.5
Ireland	0.5	3.3	0.5	0.6	-0.5		-2.2	-5.3	-5.1	0.5	3.3	3.3
Portugal		-0.1				0.1						-0.2
Netherlands	0.1				0.1	0.1		-0.3	-0.2			-0.1
Belgium					0.1		-0.3	-1.3	-1.3		-0.1	-0.1
Denmark		0.1	0.1		-0.3	-0.3	-0.1	-0.1	-0.1			
Norway												
Sweden		-0.2	0.1			0.1						
Switzerland					0.2	0.1						
United Kingdom	0.1	-0.1	0.1		0.1	0.1	-0.1	0.2	-0.1		0.3	0.3
Emerging Markets	0.1				-0.1	-0.3	0.2	0.1	0.3			-0.1
China		0.2	0.1		-0.3	-0.6			0.5			
Taiwan					0.3							
India												
Indonesia		-0.2	-0.3					-0.2	-0.1			
Korea								0.2	0.1			
Czech					-0.2	-0.2		0.5	-0.2			
Hungary					-0.1	-0.2	0.1	1.1	1.0			
Poland									-0.1			
Romania					-0.1	0.1						
Russia		-0.3			-0.1	-0.5						
Turkey					0.2	-0.5		-0.1	-0.4			
Nigeria	-1.3	-0.5				0.1	2.1	-0.5	0.6			
South Africa										0.2	0.2	0.2
Argentina						-2.0						
Brazil								0.1				
Mexico		-0.3	-0.1		-0.1	-0.2	0.0	0.7	0.5	0.1		-0.5
Venezuela												

Note: For Ireland we use the GDP deflator rather than the CPI. 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	2.70	3.10	3.20	3.35	3.45	NA	NA	NA	NA	NA	NA	1.33	1.35	1.35	1.40	1.42	1.43
Japan	0.71	0.57	0.78	1.25	1.50	1.50	98	104	109	110	107	103	130	140	147	155	152	147
Euro Area	1.60	1.46	1.55	1.80	2.05	2.30	1.33	1.35	1.35	1.40	1.42	1.43	NA	NA	NA	NA	NA	NA
Canada	2.26	2.41	2.95	3.05	3.15	3.10	1.03	1.09	1.11	1.10	1.10	1.10	1.37	1.48	1.50	1.55	1.56	1.57
Australia	3.65	4.18	4.70	5.06	5.50	5.75	0.97	0.94	0.94	0.93	0.93	0.92	1.37	1.44	1.44	1.51	1.53	1.55
New Zealand	3.98	4.71	5.23	5.65	5.80	6.00	0.82	0.86	0.84	0.82	0.78	0.74	1.62	1.58	1.61	1.70	1.81	1.92
Germany	1.60	1.46	1.55	1.80	2.05	2.30												
France	2.12	1.91	1.95	2.20	2.45	2.70												
Italy	4.23	3.01	2.75	2.85	2.95	3.10												
Spain	4.48	2.92	2.65	2.65	2.75	2.90												
Greece	10.36	6.32	5.18	5.18	4.55	4.30												
Ireland	4.00	2.59	2.35	2.50	2.60	2.85												
Portugal	5.15	3.90	3.55	3.55	3.15	3.30												
Netherlands	1.89	1.71	1.80	2.05	2.30	2.55												
Belgium	2.33	1.98	2.00	2.25	2.50	2.75												
Denmark	1.73	1.53	1.68	1.95	2.30	2.55	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.57	2.66	2.49	2.65	2.90	3.15	5.88	6.12	5.93	5.51	5.28	5.08	7.81	8.28	8.01	7.74	7.49	7.24
Sweden	2.10	2.01	2.14	2.40	2.55	2.80	6.51	6.74	6.72	6.40	6.23	6.08	8.65	9.10	9.08	8.98	8.83	8.67
Switzerland	0.82	0.95	1.06	1.08	1.28	1.48	0.93	0.90	0.93	0.92	0.91	0.91	1.23	1.22	1.25	1.29	1.29	1.30
United Kingdom	2.34	2.81	3.19	3.35	3.45	3.50	1.56	1.70	1.74	1.76	1.78	1.79	0.85	0.79	0.78	0.80	0.80	0.79
Emerging Markets																		
China	*3.68*	*4.11*	*3.97*	*4.08*	4.20	4.45	6.15	6.17	6.03	6.01	6.02	6.04	8.17	8.34	8.15	8.44	8.54	8.61
Taiwan	*1.46*	*1.60*	*1.89*	*2.19*	2.49	2.79	29.68	30.09	29.95	29.73	29.24	28.70	39.43	40.67	40.45	41.77	41.45	40.91
India	*8.25*	*8.50*	*8.50*	*8.00*	7.50	7.50	58.57	60.36	62.21	62.45	59.75	56.69	77.80	81.57	84.03	87.74	84.72	80.79
Indonesia	*6.97*	*8.14*	*8.75*	*8.75*	8.75	8.75	10449	11693	12009	11704	10989	10222	13881	15804	16222	16444	15580	14569
Korea	*3.00*	*2.86*	*3.11*	*3.68*	4.30	4.63	1095	1032	1011	975	975	980	1454	1394	1365	1370	1383	1397
Czech	*2.09*	*1.74*	*1.91*	*2.25*	2.41	2.66	19.6	20.3	20.2	18.8	18.1	17.5	26.0	27.5	27.2	26.5	25.7	25.0
Hungary	*5.92*	*4.88*	*4.80*	*5.14*	5.22	5.50	223	230	238	231	230	230	297	311	321	325	327	328
Poland	*4.05*	*3.79*	*4.26*	*4.73*	4.70	4.12	3.16	3.09	3.12	2.86	2.80	2.76	4.20	4.18	4.22	4.02	3.96	3.93
Romania	NA	NA	NA	NA	NA	NA	3.33	3.31	3.29	3.12	3.02	2.95	4.42	4.47	4.44	4.39	4.29	4.21
Russia	NA	NA	NA	NA	NA	NA	31.9	35.6	37.9	37.2	37.0	36.9	42.3	48.1	51.2	52.3	52.5	52.6
Turkey	NA	NA	NA	NA	NA	NA	1.91	2.14	2.25	2.38	2.38	2.37	2.53	2.89	3.04	3.35	3.38	3.37
Nigeria	NA	NA	NA	NA	NA	NA	159	163	167	171	175	180	212	221	226	240	248	257
South Africa	7.20	8.08	8.04	8.14	8.38	8.77	9.65	10.70	11.01	10.81	10.69	10.59	12.82	14.47	14.87	15.18	15.16	15.10
Argentina	NA	NA	NA	NA	NA	NA	5.45	8.38	11.15	17.55	24.86	29.84	7.24	11.33	15.06	24.64	35.26	42.55
Brazil	9.98	11.83	11.91	12.21	12.25	12.25	2.16	2.30	2.53	2.66	2.77	2.89	2.87	3.11	3.42	3.73	3.93	4.12
Mexico	5.67	6.12	6.95	7.35	7.65	7.65	12.8	13.0	13.0	12.7	12.6	12.4	17.0	17.6	17.6	17.9	17.8	17.7
Venezuela	10.81	14.01	14.95	15.50	15.50	15.50	5.99	9.15	19.80	31.28	49.43	78.10	7.96	12.37	26.74	43.95	70.08	111.31

*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 30 July 2014 (Percent)

	Current	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15
United States	0.25	0.25	0.25	0.25	0.25	0.75	1.00
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Euro Area	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.50
Australia	2.50	2.50	2.50	2.50	2.75	3.00	3.25
New Zealand	3.50	3.50	3.75	3.75	4.00	4.25	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	1.50
Sweden	0.25	0.25	0.25	0.25	0.25	0.25	0.50
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.75	1.25	1.50	2.00	2.50
China	3.00	3.00	3.00	3.00	2.75	2.75	2.75

Source: Citi Research

Figure 15. 10-Year Yield Forecasts (Period Average), as of 30 July 2014 (Percent)

	Current	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15
United States	2.47	2.60	2.85	3.00	3.05	3.15	3.20
Japan	0.53	0.55	0.50	0.70	0.80	0.85	0.75
Euro Area (Germany)	1.12	1.25	1.45	1.50	1.55	1.55	1.60
Canada	2.09	2.25	2.55	2.80	2.90	3.00	3.10
Australia	3.47	3.55	3.85	4.00	4.20	4.45	4.65
New Zealand	4.21	4.30	4.50	4.60	4.70	4.90	5.10
Denmark	1.48	1.32	1.55	1.60	1.65	1.70	1.75
Norway	2.31	2.45	2.55	2.40	2.50	2.50	2.55
Sweden	1.63	1.80	2.05	2.10	2.10	2.10	2.25
Switzerland	0.48	0.95	0.95	1.02	1.02	1.10	1.10
United Kingdom	2.54	2.75	3.05	3.15	3.15	3.20	3.25

Source: Citi Research

Figure 16. 10-Year Yield Spreads (Period Average), as of 30 July 2014

	Spread vs. US$						Spread vs. Germany					
	Current	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	Current	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15
United States	NA	NA	NA	NA	NA	NA	137	137	142	152	152	162
Japan	-196	-207	-237	-232	-227	-232	-59	-70	-95	-80	-75	-70
Euro Area	-137	-137	-142	-152	-152	-162	NA	NA	NA	NA	NA	NA
Canada	-38	-35	-30	-20	-15	-15	98	101	112	132	137	147
Australia	101	96	102	102	117	132	238	233	244	254	269	295
New Zealand	177	173	168	163	168	179	313	310	310	315	321	341
France	-97	-97	-102	-112	-112	-122	38	40	40	40	40	40
Italy	17	3	-22	-32	-32	-42	152	140	120	120	120	120
Spain	0	3	-32	-42	-42	-52	134	140	110	110	110	110
Netherlands	-116	-112	-117	-127	-127	-137	19	25	25	25	25	25
Belgium	-98	-92	-97	-107	-107	-117	37	45	45	45	45	45
Austria	-111	-112	-117	-127	-127	-137	24	25	25	25	25	25
Finland	-122	-112	-117	-127	-127	-137	13	25	25	25	25	25
Ireland	-31	-27	-62	-72	-72	-82	104	110	80	80	80	80
Portugal	109	103	58	48	48	38	244	240	200	200	200	200
Greece	334	343	258	223	223	188	469	480	400	375	375	350
Denmark	-99	-130	-132	-142	-142	-147	37	7	10	10	10	15
Norway	-16	-17	-32	-62	-57	-67	119	120	110	90	95	95
Sweden	-84	-82	-82	-92	-97	-107	51	55	60	60	55	55
Switzerland	-199	-167	-192	-200	-205	-207	-64	-30	-50	-48	-53	-45
United Kingdom	7	15	20	15	10	5	142	152	162	167	162	168

Source: Citi Research

Figure 17. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as 30 July 2014

Country	Current Rate	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Total Cumulative Rate Moves Expected
Turkey	8.25	-50	275	0	0	50	275
Brazil	11.00	0	0	100	50	0	150
South Africa	5.75	25	0	0	25	50	100
Mexico	3.00	0	0	0	25	25	50
Philippines	3.50	0	25	25	0	0	50
Thailand	2.00	0	0	0	0	50	50
Israel	0.50	0	0	0	25	25	50
Indonesia	5.75	0	25	0	0	0	25
Hungary	2.10	0	0	0	0	25	25
Chile	3.75	-25	0	0	25	25	25
India	8.00	0	0	0	0	0	0
Poland	2.50	0	0	0	0	0	0
Korea	2.50	-25	0	0	0	25	0
China	3.00	0	0	0	-25	0	-25
Russia	8.00	-50	0	-100	-50	-25	-225
Ukraine	12.50	200	0	-250	0	-200	-250

Source: Citi Research

Figure 18. Foreign Exchange Forecasts (End of Period), as of 30 July 2014

	vs. USD							vs. EUR						
	Current	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Current	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15
United States	NA	NA	NA	NA	NA	NA	NA	1.34	1.33	1.33	1.33	1.34	1.36	1.37
Japan	102	105	106	108	108	109	110	137	139	141	143	145	148	151
Euro Area	1.34	1.33	1.33	1.33	1.34	1.36	1.37	NA	NA	NA	NA	NA	NA	NA
Canada	1.08	1.09	1.11	1.12	1.12	1.11	1.11	1.45	1.46	1.47	1.49	1.50	1.51	1.52
Australia	0.94	0.95	0.94	0.94	0.94	0.94	0.93	1.43	1.40	1.41	1.41	1.43	1.45	1.47
New Zealand	0.86	0.84	0.84	0.84	0.84	0.84	0.83	1.57	1.58	1.58	1.58	1.60	1.62	1.65
Norway	6.22	6.22	6.16	6.11	6.00	5.88	5.76	8.36	8.27	8.19	8.12	8.05	7.98	7.91
Sweden	6.82	6.91	6.88	6.85	6.77	6.68	6.59	9.16	9.19	9.15	9.11	9.09	9.07	9.05
Switzerland	0.90	0.92	0.93	0.93	0.93	0.93	0.92	1.22	1.22	1.23	1.24	1.25	1.26	1.27
United Kingdom	1.70	1.71	1.72	1.72	1.73	1.74	1.75	0.79	0.78	0.77	0.77	0.77	0.78	0.79
China	6.19	6.16	6.11	6.05	6.03	6.03	6.02	8.32	8.19	8.12	8.05	8.10	8.18	8.27
India	60.1	60.3	61.1	61.8	62.1	62.3	62.5	80.7	80.2	81.2	82.2	83.4	84.6	85.9
Korea	1026	1025	1025	1025	1017	1006	995	1378	1363	1363	1363	1364	1366	1367
Poland	3.09	3.14	3.18	3.22	3.17	3.09	3.01	4.15	4.17	4.23	4.28	4.26	4.20	4.14
Russia	35.1	36.1	37.1	38.0	38.1	37.9	37.7	47.2	48.0	49.3	50.6	51.2	51.5	51.8
South Africa	10.51	10.76	10.91	11.06	11.06	11.00	10.94	14.12	14.31	14.51	14.71	14.83	14.93	15.02
Turkey	2.09	2.13	2.16	2.19	2.23	2.27	2.31	2.81	2.84	2.88	2.92	2.99	3.08	3.17
Brazil	2.23	2.31	2.40	2.48	2.52	2.55	2.58	2.99	3.08	3.19	3.29	3.38	3.46	3.55
Mexico	12.9	13.0	13.1	13.1	13.0	13.0	12.9	17.4	17.3	17.4	17.4	17.5	17.6	17.7

Source: Citi Research

Figure 19. Foreign Exchange Forecasts (End of Period), as of 30 July 2014

	Vs. JPY						
	Current	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15
United States	102	105	106	108	108	109	110
Japan	NA	NA	NA	NA	NA	NA	NA
Euro Area	137	139	141	143	148	151	151
Canada	94	96	96	96	97	98	99
Australia	96	99	100	101	102	102	102
New Zealand	87	88	89	90	91	91	91
Norway	16.4	16.8	17.2	17.6	18.1	18.6	19.0
Sweden	14.9	15.1	15.4	15.7	16.0	16.3	16.6
Switzerland	113	114	115	116	117	118	119
United Kingdom	173	179	182	186	188	190	191
China	16	17	17	18	18	18	18
India	1.70	1.73	1.74	1.74	1.74	1.75	1.75
Korea	10.08	9.80	9.66	9.53	9.38	9.23	9.07
Poland	32.99	33.34	33.37	33.40	34.17	35.28	36.42
Russia	2.90	2.90	2.86	2.83	2.84	2.88	2.91
South Africa	9.69	9.72	9.73	9.73	9.81	9.92	10.03
Turkey	48.64	49.06	49.07	49.09	48.65	48.05	47.48
Brazil	45.69	45.23	44.29	43.43	43.00	42.73	42.46
Mexico	7.87	8.04	8.13	8.22	8.31	8.41	8.51

Source: Citi Research

Country Commentary

United States

Peter D'Antonio

The second quarter rebound in GDP growth supports our conviction that the reported drags from the weather and mis-measurement of GDP are temporary one-off events. Improving consumer fundamentals, especially healthy growth in jobs and incomes, point to solid growth of 3% QoQ SAAR or better in the next few quarters. The rebound in growth, especially private domestic demand, will probably drive the jobless rate below 6% by yearend.

The Fed continues to maintain an accommodative stance along with tapering of quantitative easing. The Fed has been cutting asset purchases by $10 billion per meeting and expects to complete the program by October. Fed Chair Yellen has indicated a desire to allow the trajectory of the recovery and economic developments to guide policy. Moreover, she has made it clear that monetary policy should be focused on the real economy and “structural” macroprudential policies that make financial institutions and infrastructure more resilient will be the primary means for addressing financial stability concerns. We expect more information about how the Fed will revise its principles for exiting zero policy rates later this fall. Wage inflation has been extremely mild during this expansion, and although there are signs that wage growth may pick up late this year or next, we do not believe that it will pose an inflationary threat. Corporate profit margins have soared, reflecting cost cutting during the recession and a slow pace of labor cost increases since then. At this point, any wage cost increase will likely be absorbed by the elevated margins, rather than kindle inflation.

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

					2014				2015			
		2013	2014F	2015F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
GDP	SAAR				-2.1%	4.0%	3.5%	3.2%	3.2%	3.0%	2.9%	3.3%
	YoY	2.2	2.1	3.2	1.9	2.4	2.2	2.1	3.5	3.2	3.1	3.1
Domestic Demand	SAAR				0.7	2.8	3.4	3.1	3.2	3.2	3.1	3.3
	YoY	1.9	2.2	3.2	1.9	2.1	2.4	2.5	3.1	3.2	3.1	3.2
Consumption	SAAR				1.2	2.5	3.2	3.0	3.1	3.1	2.9	3.1
	YoY	2.4	2.4	3.0	2.2	2.3	2.6	2.5	2.9	3.1	3.0	3.0
Business Investment	SAAR				1.6	5.5	7.1	7.2	6.8	6.8	6.6	7.3
	YoY	3.0	5.5	6.8	4.7	5.7	6.1	5.3	6.6	7.0	6.8	6.9
Housing Investment	SAAR				-5.3	7.5	10.0	9.6	7.5	6.9	8.1	8.8
	YoY	11.9	2.6	8.2	3.5	0.9	0.6	5.3	8.7	8.5	8.0	7.8
Government	SAAR				-0.8	1.6	0.7	-0.1	0.3	0.3	0.3	0.2
	YoY	-2.0	-0.5	0.4	-1.1	-0.7	-0.6	0.3	0.6	0.3	0.2	0.3
Exports	SAAR				-9.2	9.5	5.5	6.2	6.1	6.0	6.0	5.8
	YoY	3.0	3.2	6.2	2.8	3.5	3.6	2.7	6.8	5.9	6.1	6.0
Imports	SAAR				2.2	11.7	3.6	4.4	3.6	5.0	5.2	5.0
	YoY	1.1	4.3	4.8	3.1	3.9	4.6	5.4	5.8	4.1	4.5	4.7
PCE Deflator	YoY	1.2	1.6	1.8	1.1	1.6	1.7	1.8	1.9	1.8	1.7	1.8
Core PCE Deflator	YoY	1.3	1.5	1.8	1.2	1.5	1.6	1.7	1.9	1.8	1.8	1.8
Unemployment Rate	%	7.4	6.2	5.7	6.7	6.2	6.1	5.9	5.9	5.7	5.6	5.5
Federal Gov't Balance (Fiscal Year)	$Bn	-680	-475	-450								
	% of GDP	-4.1	-2.8	-2.5								
General Gov't Balance (Cal Year)	% of GDP	-7.4	-6.4	-5.6								
Federal Debt	% of GDP	72	74	74								
General Gov't Debt	% of GDP	105	107	107								
Current Account	US$bn	-400	-435	-426	-445	-408	-441	-446	-438	-434	-421	-410
	% of GDP	-2.4	-2.5	-2.3	-2.6	-2.4	-2.5	-2.5	-2.4	-2.4	-2.3	-2.2
S&P 500 Profits (US$ Per Share)	YoY	6.4	7.1	7.2	5.4	6.9	7.3	8.7	6.6	6.9	6.6	8.6

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

Japan

Kiichi Murashima

Naoki Iizuka

Recent data indicate that the underlying trend in the economy is not as solid as industrial reports and anecdotal evidence might indicate. First, there appears to be more to sluggishness in consumer spending than just payback to frontloaded demand ahead of the consumption tax hike in April. The erosion of real purchasing power of household nominal income — driven by the tax hike — is probably weighing on consumers. Second, export volumes continue to be range-bound despite the earlier yen depreciation. Japanese companies are probably dealing with increases in foreign demand by expanding overseas production (instead of exports from Japan). While the economy is likely to weather the negative impact from the tax hike eventually, a virtuous circle in the economy remains elusive, in our view.

While there are unlikely to be compelling catalysts for the markets in this summer, the coming autumn and winter will likely be eventful with key policy decisions in the offing. Most notably, PM Abe is expected to make a final decision in early December on whether to implement another consumption tax hike slated in October 2015. If as we anticipate, PM Abe decides to go ahead with the tax hike, political discussions regarding stimulus measures to offset the impact from the tax hike are likely to emerge. Moreover, details of the corporate tax reform will also be revealed in November or December. We continue to expect the BoJ will ease further in late October when policymakers update an economic outlook report, although there seems to be no consensus on this issue now. The BoJ expects moderately higher wages and improvement in the output gap, along with rising inflation expectation, to push up core inflation to around 2% sometime in fiscal 2015. However, we remain sceptical that this scenario will play out, as declines in real income are likely to weigh on consumer spending. If incoming data support our view, the BoJ would probably eventually decide on additional easing.

Figure 21. Japan — Economic Forecasts, 2013-2015

					2014				2015			
		2013	2014F	2015F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	1.5%	1.4%	0.9%	2.8%	0.5%	0.9%	1.1%	-0.1%	1.7%	1.5%	0.7%
	SAAR				6.7	-6.0	2.8	1.4	1.4	1.0	2.3	-2.1
Domestic Demand	YoY	1.8	1.5	0.5	3.9	0.9	0.7	0.4	-1.2	1.5	1.5	0.2
	SAAR				7.9	-9.2	2.5	1.1	1.4	0.9	2.6	-4.1
Private Consumption	YoY	2.0	0.3	0.2	3.6	-1.2	-0.6	-0.7	-2.4	1.7	1.8	-0.1
	SAAR				9.2	-14.8	3.3	1.1	1.9	0.4	3.8	-6.2
Business Investment	YoY	-1.4	8.4	3.8	11.4	7.2	7.5	7.4	0.6	5.2	5.0	4.2
	SAAR				34.2	-11.0	5.0	6.1	3.4	6.1	4.6	2.9
Housing Investment	YoY	8.8	0.5	-2.3	12.0	2.7	-4.5	-7.5	-8.9	0.3	3.2	-2.9
Public Investment	YoY	11.5	3.2	-8.7	11.8	7.5	1.0	-6.0	-6.5	-9.5	-10.5	-8.4
Exports	YoY	1.6	8.2	4.4	8.9	6.0	8.5	9.5	4.2	5.0	4.5	4.0
	SAAR				26.3	0.8	6.9	5.6	3.6	3.9	4.9	3.6
Imports	YoY	3.4	7.8	2.0	14.9	7.2	6.1	3.4	-1.8	4.2	4.6	1.3
	SAAR				27.6	-18.6	5.5	4.2	3.9	3.3	7.0	-8.5
CPI	YoY	0.4	2.8	1.7	1.5	3.6	3.2	2.9	3.0	0.9	0.9	2.3
Core CPI	YoY	0.4	2.7	1.7	1.3	3.3	3.2	3.0	3.0	0.9	0.9	2.3
Nominal GDP	YoY	0.9	2.2	1.5	1.4	-0.1	0.5	0.5	0.1	0.7	0.2	0.5
Current Account	¥ tn	3.3	-0.5	0.1	-5.5	2.1	0.9	0.5	0.0	-0.3	-0.9	1.5
	% of GDP	0.7	-0.1	0.0	-1.1	0.4	0.2	0.1	0.0	-0.1	-0.2	0.3
Unemployment Rate	%	4.0	3.6	3.4	3.6	3.6	3.6	3.5	3.4	3.4	3.3	3.3
Industrial Production	YoY	-0.6	3.4	1.1	8.1	3.1	2.0	0.5	-1.7	2.2	3.1	0.9
Corporate Profits (Fiscal Year)	YoY	37.5	10.0	12.5								
General Govt. Balance (Fiscal Year)	% of GDP	-9.8	-8.0	-6.2								
General Govt Debt	% of GDP	241	243	247								

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

Guillaume Menuet

Giada Giani

Ebrahim Rahbari

We lower our 2014 & 2015 GDP forecasts by 0.1pp each year to 1.1% and 1.7%, respectively and also shave a decimal point off our 2014 inflation forecast to 0.5%. Although our bean-count models suggest that euro area real GDP growth was around 0.4% QQ in 2Q-14, our bottom-up estimates point to 0.3% QQ. To be sure, most business surveys have been painting a somewhat less constructive picture of economic activity in the latter part of the first half. Our analysis of the business cycle (Is the Euro Area Recovery at Risk of Faltering?) highlighted risks that the initial and strongest phase of business cycle improvements could be behind us. Recent developments in Ukraine and the persistence of a strong euro indicate that the balance of risks to economic activity remains skewed to the downside, notwithstanding better signs from the US and China. Turning to inflation, strong base effects will likely drive the euro area headline rate to a new multi-year low of 0.3% YY in July (flash estimate on 31 July), with limited prospects of a rebound before Q4, in our view. Our forecast of weak wage dynamics suggests core inflation will stay low, in contrast to the ECB's expectations of an imminent rebound.

News on the ECB front has been limited since the sizeable monetary policy easing in June. The main development was the publication of the new ECB Calendar for 2015 Governing Council meetings, introducing a longer six-week interval between monetary policy meetings compared to the current monthly frequency. No schedule has been released for the dates of the ECB monetary policy minutes as yet. The ECB also published its disclosure process for the comprehensive assessment (CA) of euro area banks, presented detailed milestones and confirmed that the results of the CA will be published in the second half of October. We are not making any changes to our outlook for ECB monetary policy, and continue to expect that the persistence of low- and below-target inflation, with a fragile recovery, will lead the ECB to launch a large-scale asset purchase programme around December 2014, despite indications from various GC members that it is "*not appropriate to think about any next steps at this stage*".

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

					2014				2015			
		2013	2014F	2015F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	-0.4%	1.1%	1.7%	0.9%	0.9%	1.2%	1.4%	1.6%	1.8%	1.8%	1.8%
	SAAR				0.8	1.2	1.7	1.7	1.8	1.7	1.9	1.9
Final Domestic Demand	YoY	-0.8	0.9	1.6	0.8	0.8	0.9	1.1	1.3	1.6	1.7	1.8
Private Consumption	YoY	-0.6	0.8	1.5	0.5	0.6	0.8	1.1	1.4	1.5	1.6	1.6
Government Consumption	YoY	0.2	0.6	0.6	0.7	0.6	0.4	0.6	0.1	0.5	0.7	1.1
Fixed Investment	YoY	-2.8	1.7	3.0	1.7	1.6	1.9	1.7	2.5	3.2	3.2	3.0
Business Equipment	YoY	-1.8	3.0	4.0	3.4	2.5	3.2	2.8	2.9	4.3	4.4	4.4
Construction	YoY	-3.8	0.9	2.2	1.1	0.8	0.7	1.1	1.3	2.5	2.5	2.6
Stocks (Contrib. to Y/Y GDP Growth)		0.0	0.1	0.1	0.1	0.2	0.0	0.2	0.0	0.1	0.1	0.1
Exports	YoY	1.5	3.2	3.6	4.0	2.7	3.5	2.9	3.8	3.6	3.5	3.4
Imports	YoY	0.4	3.3	3.6	4.1	3.1	2.9	3.1	3.3	3.7	3.7	3.6
CPI	YoY	1.4	0.5	0.9	0.7	0.6	0.3	0.6	0.8	0.9	0.9	0.9
CPI Ex Unprocessed Food & Energy	YoY	1.3	0.9	0.8	1.0	0.9	0.7	0.8	0.8	0.9	0.9	0.8
Unemployment Rate	YoY	11.9	11.5	10.7	12.2	11.5	11.1	11.2	11.4	10.8	10.3	10.4
Current Account Balance	€bn	230.7	282.7	296.6								
	% of GDP	2.4	2.9	3.0								
General Government Balance	€bn	-290.3	-262.1	-236.4								
	% of GDP	-3.0	-2.7	-2.4								
Primary Balance	% of GDP	-0.1	0.3	0.6								
General Government Debt	€bn	9,121.3	9,481.1	9,697.5								
	% of GDP	95.0	97.0	96.9								
Gross Operating Surplus	YoY	1.4	2.4	2.5								

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

Germany

Ebrahim Rahbari

Most soft and hard data have remained weak over the past month. We therefore revise our forecast for Q2 growth down sharply to flat (from 0.4% QQ previously). In our view, some of the weakness is likely exaggerated by calendar effects and a payback from very strong Q1 growth. But as the Bundesbank (amongst others) has noted, geopolitical concerns have contributed to weaker sentiment and lower manufacturing activity in particular, which is why we also lower our forecasts for 2014 and 2015 growth, by 0.2pp and 0.1pp to 2.0% and 2.4% respectively.

France

Guillaume Menuet

We leave our 2014-15 French GDP forecasts unchanged and look for a modest increase of 0.2% QQ (0.4% YY) in Q2 GDP amid indications of weak IP and muted consumer spending. On fiscal policy, parliament adopted the supplementary 2014 budget. PM Manuel Valls pledged to push through with the reform agenda, including some further loosening of the French labour code, despite some clear opposition from a number of government MPs claiming that the government is focusing too much on giving tax breaks to businesses and too little on households' purchasing power. In the meantime, discussions on the 2015 Budget showed an unprecedented effort in terms of expenditure management. Popularity ratings for the President rebounded a little (+1pt to 20%), but those for PM Valls fell by one point to 42%.

Italy

Giada Giani

Q2 hard data have been somewhat disappointing so far, suggesting Q2 GDP may rise by only 0.1% QQ, after declining by 0.1% QQ in Q1. Yet, we think growth will stay positive — albeit subdued — in H2 14, as the recently-introduced tax rebates and still-positive export performance should support final demand, despite still-tight bank credit conditions. Yet, spare capacity is set to stay ample and we expect inflation to turn negative in the next few months and on average stay negative in 2015. A strong result for the ruling centre-left party PD at the EU elections has reduced political uncertainty and raises hopes for more structural reforms to be agreed in the near future.

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

		Germany			France			Italy		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	0.5%	2.0%	2.4%	0.4%	0.7%	1.3%	-1.8%	0.1%	1.1%
Final Domestic Demand	YoY	0.6	1.8	2.6	0.5	0.1	1.0	-2.6	0.1	1.0
Private Consumption	YoY	1.0	1.3	2.5	0.3	0.0	0.9	-2.6	0.1	0.8
Government Consumption	YoY	0.4	0.8	1.5	2.0	1.2	0.8	-0.8	0.4	-0.2
Fixed Investment	YoY	-0.7	4.7	4.4	-0.8	-0.9	1.5	-4.6	-0.5	3.4
Exports	YoY	1.1	3.9	3.7	2.4	3.1	2.4	0.0	3.1	3.4
Imports	YoY	1.6	5.1	4.9	1.9	2.7	1.5	-2.9	1.9	3.1
CPI	YoY	1.5	1.2	2.0	1.0	0.7	1.2	1.3	0.2	-0.2
Unemployment Rate	%	5.3	5.0	4.9	9.9	9.9	9.8	12.2	12.6	12.3
Current Account	€bn	207.5	196.6	198.0	-28.4	-14.6	-1.4	15.5	26.6	28.6
	% of GDP	7.6	7.0	6.9	-1.4	-0.7	-0.1	1.0	1.7	1.8
General Govt. Balance	€bn	0.3	4.9	4.5	-88.2	-88.5	-77.3	-44.1	-47.9	-45.9
	% of GDP	0.0	0.2	0.2	-4.3	-4.2	-3.6	-2.8	-3.0	-2.9
Primary Balance	% of GDP	2.2	2.2	2.1	-2.0	-1.9	-1.3	2.2	1.8	1.9
General Govt. Debt	% of GDP	78.4	77.1	74.1	93.5	96.9	98.2	132.6	137.6	139.0
Gross Trading Profits	YoY	3.7	3.0	5.1	-0.2	3.4	3.5	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

Spain

Giada Giani

Further rises in consumer and business confidence, together with strong 'hard' data (e.g. IP, retail sales) confirm our expectations for a pickup in Q2 GDP growth: we look for 0.5% QQ, the fastest QQ gain since Q4 07. The recovery is driven by private consumption and business investment, despite ongoing private deleveraging pressures and a record-low household saving rate. The 2014 fiscal deficit will probably come broadly in line with target (of 5.5% of GDP).

Greece

Giada Giani

The very strong data on tourism arrivals and service exports suggest that Q2 GDP is likely to rebound more than we had expected (by about 2.0% QQ SA, after a decline of about 0.2% QQ for Q1). We are therefore raising our 2014 growth forecast to +0.3% (which would be the first expansion since 2007) from minus 0.6% last month. Growth is likely to accelerate to around 1¼% in 2015 amid reduced fiscal tightening and stronger private spending.

Ireland

Michael Saunders

We are sharply raising our 2014 growth forecast from 2.8% (already above consensus), to a stunning pace of 6.1% YoY (highest since 2000). Three factors prompt this change. First, with the ESA 2010 national accounts framework and other revisions, the cumulative gain in real GDP from Q4-09 (crisis low) to Q4-13 has been revised up from 2.2% to 5.2%. Second, Q1 GDP growth was extremely strong, up 2.7% QoQ and 5.1% YoY, with exports surging 7.2% YoY. Third, available Q2 data are very strong, with industrial production in April-May up by 11.8% from Q1 and up by 23% from Q2-13, led by a surge in pharma output as the "patent cliff" effect unwinds. We pencil in a 2.0% QoQ gain in Q2 GDP and regard that as cautious. The public debt/GDP ratio is likely to fall sharply this year.

Portugal

Giada Giani

Recent data suggest that weakness in Q1 GDP (-0.7% QQ) will likely be offset by a rebound in Q2: we expect real GDP to expand by 0.9% QQ (highest since Q1 10). Exports were quite weak in April and May, but tourist arrivals have been very strong. Both private consumption and investment should continue to expand along recent steady trends. Despite the High Court negative ruling on some spending cuts, we still expect the budget deficit to decline close to the target (4% of GDP) in 2014.

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

		Spain			Greece			Ireland			Portugal		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-1.2%	1.3%	1.9%	-3.9%	0.3%	1.3%	0.2%	6.1%	3.9%	-1.4%	1.1%	2.0%
Final Domestic Demand	YoY	-2.7	1.5	1.9	-6.4	0.3	0.5	-0.6	0.7	1.6	-2.4	0.9	1.2
Private Consumption	YoY	-2.0	2.0	2.1	-5.8	1.1	0.7	-0.8	0.8	1.6	-1.7	1.0	1.2
Government Consumption	YoY	-2.3	0.3	0.4	-3.9	-0.4	-0.1	1.3	-1.5	-2.5	-1.8	-0.3	0.6
Fixed Investment	YoY	-5.0	1.2	2.8	-12.8	-3.3	0.5	-1.8	2.9	5.3	-6.0	1.7	2.2
Exports	YoY	4.9	4.5	5.7	1.2	6.2	2.8	1.1	7.6	5.8	6.1	2.1	4.4
Imports	YoY	0.4	5.8	6.5	-5.3	1.3	0.3	0.6	4.3	3.9	3.2	3.3	2.0
CPI	YoY	1.5	0.0	0.2	-0.9	-1.5	-1.5	1.0	0.3	1.0	0.4	-0.3	-0.6
Unemployment Rate	%	26.1	24.5	23.1	27.5	26.9	25.8	13.1	12.1	11.7	16.2	14.8	13.1
Current Account	€bn	8.0	6.5	5.5	1.4	3.8	4.3	7.6	8.1	10.1	0.9	0.9	1.2
	% of GDP	0.8	0.6	0.5	0.8	2.1	2.4	4.4	4.3	5.2	0.5	0.5	0.7
General Govt. Balance	€bn	-72.4	-58.7	-51.6	-23.1	-3.7	-4.0	-11.8	-3.3	1.6	-8.2	-7.0	-5.4
	% of GDP	-7.1	-5.7	-4.9	-12.7	-2.0	-2.2	-6.7	-1.8	0.8	-5.0	-4.2	-3.2
Primary Balance	% of GDP	-3.7	-2.3	-1.6	-8.7	2.4	2.3	-2.6	2.9	5.4	-0.6	0.3	1.5
General Govt. Debt	% of GDP	93.9	98.8	101.3	175.1	179.5	181.3	123.3	114.2	108.2	128.9	136.0	133.5

Source: Citi Research

Netherlands

Guillaume Menuet

Dutch GDP contracted sharply in Q1 on account of a sizeable reduction in gas production. We expect that part of this decline will unwind in Q2, and look for a solid rebound in real GDP, worth 0.7% QQ. At 0.9% YY, the annual growth rate of GDP would be the highest since Q3-11, but still 21% below its Q1-11 peak. Signs of recovery in house prices, together with higher levels of consumer and business confidence point to a gradual GDP recovery, albeit at smaller rates than its peers.

Belgium

Guillaume Menuet

We estimate that economic activity rose by 0.2% QQ in Q2-14 — the fifth successive quarter of expansion but the lowest QQ gain since the start of 2013. With business confidence eroding noticeably in Q2, and household confidence essentially treading water, we see some risks of a much smaller contribution from domestic demand to GDP growth. We continue to expect slightly faster growth in H2-14, supported by a gradual improvement in private sector employment expectations. Government coalition formation talks continue.

Slovakia

Jaromir Sindel

We keep our 2014 and 2015 GDP growth forecast at 2.2% and 2.7% respectively due to better domestic demand, though our forecast remains below the MinFin's. Our momentum indicator somewhat eased in May, but remains around values seen in early 2014. The July business survey showed an improvement in total confidence to a level last seen three years ago and represents an upside risk. However, the reading for export order books fell, and it will be worth seeing if the recent slowdown in export growth persists.

Slovenia

Jaromir Sindel

Miro Cerar, the likely new PM, continues with political talks to establish a broad coaltion. There have been mixed developments in recent data. Our momentum indicator dropped in May, reflecting negative readings from industry, construction and retail. On the other hand, the July confidence indicator showed a broad-based improvement and reached the level last seen in September 2008. Confidence in all sectors apart from services is above the long-term average. The index of manufacturers' export order books surged to levels last seen in 2H07, which is consistent with very strong export growth (15%+ YoY). We do not expect exports to be as strong as that, but recent data suggest the export-driven recovery with a positive pass-through into domestic demand and employment is likely to continue.

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

		Netherlands			Belgium			Slovakia			Slovenia		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-0.7%	0.6%	1.4%	0.2%	1.3%	1.5%	0.9%	2.2%	2.7%	-0.9%	1.0%	1.4%
Final Domestic Demand	YoY	-1.7	1.0	0.8	0.3	1.4	1.2	-0.8	2.5	1.2	-2.2	0.1	0.5
Private Consumption	YoY	-1.6	-0.2	0.7	0.8	1.3	1.0	-0.1	2.1	1.4	-2.8	-0.2	-0.4
Government Consumption	YoY	-0.2	-0.1	-0.1	0.6	0.3	0.8	1.4	1.8	-1.4	-2.0	-0.9	-0.3
Investment (Ex Stocks)	YoY	-3.9	5.1	2.3	-1.4	3.3	2.3	-4.3	4.3	2.8	-0.3	1.2	1.0
Exports	YoY	2.2	2.6	2.4	1.9	2.7	4.2	4.5	7.6	7.8	2.7	4.5	6.7
Imports	YoY	1.0	3.3	2.0	1.4	2.4	4.3	2.9	8.8	6.7	1.3	3.8	5.7
CPI (Average)	YoY	2.6	0.4	1.2	1.2	0.7	1.1	1.4	0.0	1.0	1.8	0.4	0.9
Unemployment Rate	%	8.3	8.6	8.4	8.4	8.4	8.2	14.1	12.8	12.1	10.1	10.1	10.5
Current Account	% of GDP	10.8	10.6	10.1	-1.9	-0.3	0.4	2.1	1.5	2.7	6.0	3.3	3.5
General Govt Balance	% of GDP	-2.4	-2.8	-2.3	-2.7	-2.5	-2.0	-2.8	-3.0	-2.6	-14.7	-4.0	-3.5
Primary Balance	% of GDP	-0.7	-1.1	-0.5	0.6	0.7	1.2	-1.5	-1.7	-1.3	-12.1	-1.1	-0.7
General Govt Debt	% of GDP	73.5	75.0	74.9	101.2	102.1	101.4	55.4	56.3	55.7	71.7	81.3	82.7

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

United Kingdom

Michael Saunders

The economy continues to grow strongly, with Q2 GDP up 0.8% QoQ and 3.2% YoY, alongside a rapid drop in unemployment (the jobless rate has fallen from 7.8% to 6.5% over the last year). Moreover, the UK usually revises GDP growth up after the initial data, and we suspect that recent GDP data will be revised up with the major GDP revisions to be unveiled in late-September. It would not be a surprise if the ONS eventually report that GDP growth currently is about 4% YoY. In recent months, the MPC have been assuming that the economy will slow in H2 and that, with a rebound in productivity, job growth will slow markedly so that the jobless rate falls only slowly. In practice, business surveys suggest that the economy will continue to grow strongly in Q3, and that firms' hiring intentions remain extremely strong. We expect the jobless rate will fall to about 6% at the end of this year, roughly matching the MPC's estimate of the medium-term equilibrium jobless rate.

The MPC now seem to be shifting their outlook and as a result are likely to start to hike rates late this year. In our view, the economy is unlikely to slow abruptly as rates rise, given that (a) rates will still be very low and (b) household and corporate balance sheets have improved markedly over recent years. As a result, we look for 2015 GDP growth of about 3½%, well above the consensus (2½% - 2¾%). We expect the jobless rate will fall to about 5% at the end of 2015. As a result, we look for rates to rise further and faster than markets project in 2015, reaching about 2.5% at yearend. We judge this outlook to be very benign, and likely to ensure a soft landing — with growth slowing back to trend in 2016-17. Key uncertainties are (a) external growth and (b) political developments — the Scottish referendum seems unlikely to produce a vote for independence but beyond that the 2015 general election could lead to uncertainties over fiscal policy (especially if Labour lead the next government) or the UK's EU membership (especially if the Conservatives win).

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

					2014				2015			
		2013	2014F	2015F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	1.8%	3.4%	3.7%	2.9%	3.2%	3.5%	3.8%	4.0%	4.0%	3.6%	3.2%
	SAAR				3.1	3.5	4.5	4.2	3.8	3.4	2.9	2.5
Domestic Demand	YoY	1.8	3.0	4.4	3.1	3.3	2.2	3.4	4.2	4.5	4.5	4.2
(Incl. Inventories)	SAAR				1.9	3.5	3.7	4.6	5.1	4.6	3.7	3.2
Private Consumption	YoY	2.2	2.9	3.3	2.2	3.1	2.9	3.3	3.3	3.2	3.3	3.2
	SAAR				3.4	4.1	2.9	2.9	3.2	3.9	3.2	2.6
Government Consumption	YoY	0.7	0.4	-0.1	1.8	0.1	-0.3	-0.1	0.0	0.2	-0.2	-0.5
	SAAR				-0.2	-1.3	0.9	0.4	-0.1	-0.5	-0.5	-1.0
Investment	YoY	-0.8	12.3	16.0	9.7	11.0	12.5	15.9	18.1	16.9	15.6	13.6
	SAAR				9.8	19.3	16.1	18.8	18.1	14.6	11.1	10.9
Exports	YoY	0.5	2.2	4.8	0.5	-1.0	4.3	4.8	5.8	5.7	4.0	3.6
	SAAR				-0.3	3.5	11.0	5.4	3.3	3.2	4.1	3.8
Imports	YoY	0.2	1.4	7.5	0.9	-0.2	0.8	4.0	7.3	7.9	7.5	7.2
	SAAR				-4.6	5.0	8.6	7.4	8.2	7.4	6.8	6.5
Unemployment Rate	%	7.6	6.3	5.2	6.8	6.4	6.2	5.9	5.7	5.3	5.0	4.7
CPI Inflation	YoY	2.6	1.7	2.0	1.8	1.7	1.7	1.8	1.9	2.0	2.1	2.1
Merch. Trade	£bn	-109.7	-96.6	-99.7								
	% of GDP	-6.8	-5.6	-5.5								
Current Account	£bn	-72.8	-64.2	-74.2								
	% of GDP	-4.5	-3.8	-4.1								
PSNB	£bn FY	-106.8	-84.5	-54.2								
	% of GDP	-6.5	-4.8	-2.9								
General Govt. Balance	% of GDP	-7.1	-5.3	-3.4								
Government Primary Balance		-3.5	-1.8	0.3								
Public Debt	% of GDP	94.5	95.1	93.7								
Gross Nonoil Trading Profits	YoY	4.6	15.2	6.4								

Source: Citi Research

Switzerland

Michael Saunders

The Swiss economy continues to perform well, with solid real growth and stable prices. With strong trends in the PMI and Kof surveys, we estimate that Q2 GDP rose by about 0.7% QoQ and continue to look for GDP growth of about 2% this year and about 2½% in 2015. Deflation is ending but inflation is close to zero. We expect no monetary policy move either way this year or in 2015. But the SNB may well hike before the ECB given Switzerland's superior growth rate.

Sweden

Tina Mortensen

We still expect a solid rebound in growth this year but are revising this year's GDP forecast a tad lower to 2.2% from 2.4% last month. The expansion continues to face sizable headwinds from Sweden's relatively high EM export exposure and modest euro area growth. After the recent Riksbank easing, there is still an outside chance of further easing in autumn 2014, given the likelihood that inflation probably will continue to undershoot the Riksbank's forecasts and target next year.

Denmark

Tina Mortensen

Economic activity is rising again in Denmark after half a decade of stagnation. Lead guides point to a modest pickup, driven by domestic demand and exports. While public finances appear robust this year, the outlook for 2015 is somewhat worrying, not least as the next general election must be held in autumn-2015 at the latest. With the lapse of the temporary tax receipts, the public budget deficit could come close to the budget act limits. The DNB kept all of its policy rates unchanged in June despite the ECB's easing, as EUR/DKK stayed above the central parity despite intervention again in May. This has pushed the exchange rate lower, thereby limiting the need for additional intervention and rate hikes over the coming year.

Norway

Tina Mortensen

Growth in the mainland economy (ex. oil/gas and shipping) remains moderate. Private consumption and non-oil exports will continue to add to growth, while slowing oil investment trends and ongoing erosion in competitiveness imply that mainland GDP will grow at a below trend rate pace in coming years. Both fiscal and monetary policy will remain expansive to support economic recovery. In June, Norges Bank postponed its forecast for the tightening, and its projected rate path does not price in a full rate hike until 4Q-16. The Norges bank even opened the door for a near-term rate cut if economic activity deteriorates further. Given the Bank's unwillingness to deviate from monetary policy abroad, we now forecast a first rate hike in 1H 2016.

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

		Switzerland			Sweden			Denmark			Norway		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.0%	2.1%	2.6%	1.6%	2.2%	2.8%	0.4%	1.4%	1.7%	2.0%	2.0%	2.2%
Final Domestic Demand	YoY	2.3	2.4	2.9	1.4	2.6	2.3	0.4	1.3	1.8	2.5	1.8	2.2
Private Consumption	YoY	2.3	1.7	1.9	2.1	2.3	2.6	0.1	1.3	2.0	2.2	2.1	2.5
Government Consumption	YoY	3.0	0.1	0.7	1.9	1.0	0.8	0.7	0.8	0.9	1.8	2.2	2.3
Investment (Ex Stocks)	YoY	1.8	5.4	6.7	-1.0	6.0	3.8	0.5	2.3	2.4	4.5	0.1	1.1
Exports	YoY	2.0	5.3	6.1	-0.3	3.1	4.6	1.0	4.1	3.3	0.8	1.2	2.8
Imports	YoY	1.8	3.3	6.7	-0.7	4.4	3.7	1.4	4.6	3.6	2.9	1.2	2.9
CPI (Average)	YoY	-0.2	0.0	0.9	0.0	-0.1	1.1	0.8	0.7	1.2	2.1	2.0	2.1
Unemployment Rate	%	3.1	2.7	2.0	8.0	8.0	7.6	7.0	6.7	6.5	3.5	3.6	3.8
Current Account	% of GDP	12.0	11.1	10.2	6.4	6.3	6.0	7.2	6.7	5.6	11.1	11.4	11.7
General Govt Balance	% of GDP	0.2	0.7	1.1	-1.3	-1.6	-0.8	-1.0	-1.3	-2.7	10.9	11.0	11.0
General Govt Debt	% of GDP	48.2	46.3	44.8	39.0	39.8	39.1	44.5	44.7	46.0	NA	NA	NA

Source: Citi Research

Canada

Dana M. Peterson

The Canadian economy rebounded from 1Q's winter-related slump in 2Q. Housing, consumption, business investment and imports revived, while exports exhibited a modest improvement. Business sentiment and hiring remain tepid, but exporters are more optimistic. The outlook for the second half of this year and beyond is unchanged. Faster expansion should be fueled by burgeoning US demand, the cheaper CAD, and domestic energy infrastructure build-out. The internal demand rotation will remain a headwind, but capex and external trade should become greater contributors to growth. Easy financial conditions support the outlook.

Overall CPI inflation remains above the BoC's 2 percent target, and core inflation continues to rise at a faster-than-expected pace. Transitory factors like exchange rate pass-through and winter energy spikes have lifted consumer prices. But services costs are also rising. We posit that inflation is stabilizing after an extended period of competitive discounting, and the degree of excess supply may be lessening. Total CPI will probably remain near the BoC's target over the medium term, and core inflation will converge on 2 percent by mid-2015 rather than in 2016.

Risks to the inflation outlook remain roughly balanced, in our view. Upside risks include (1) stronger global growth; (2) higher commodity prices induced by geopolitical events; and (3) reinvigoration of the housing market that reinforces existing imbalances. Downside risks include (1) weaker global growth; (2) failure of the domestic demand rotation to occur due to insufficient exports and capex growth; (3) anemic Emerging Market growth; and (4) domestic household imbalances.

The BoC has shifted from extreme concern about low inflation towards fears of subpar global growth that would endanger the Canadian expansion. The Bank also doubts that fundamental factors are playing a role in the firming of consumer inflation this year. Hence, we continue to anticipate the next rate hike in 3Q 2015.

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

					2014F				2015F			
		2013	2014F	2015F	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	2.0%	2.3%	2.7%	2.2%	2.5%	2.4%	2.3%	2.7%	2.6%	2.7%	2.8%
	SAAR				1.2	3.0	2.6	2.4	2.7	2.8	2.8	2.7
Final Domestic Demand	YoY	1.4	1.5	2.2	1.0	1.5	1.6	1.9	2.5	2.1	2.1	2.2
	SAAR				-0.3	3.7	2.1	1.9	2.3	2.1	2.1	2.1
Private Consumption	YoY	2.4	2.6	2.6	2.6	2.6	2.6	2.5	2.8	2.5	2.4	2.5
	SAAR				1.2	4.0	2.7	2.2	2.5	2.5	2.5	2.5
Government Spending	YoY	0.3	-0.7	0.3	-0.7	-0.9	-0.8	-0.5	-0.1	0.2	0.4	0.5
	SAAR				-1.1	-0.7	-0.2	0.1	0.5	0.5	0.5	0.5
Private Fixed Investment	YoY	0.2	1.3	3.7	-0.9	1.3	1.7	2.8	4.8	3.3	3.3	3.2
	SAAR				-3.7	8.9	3.2	3.3	3.7	3.1	3.1	3.1
Exports	YoY	2.2	3.5	5.1	1.7	3.3	4.4	4.5	6.3	4.7	4.7	4.8
	SAAR				-2.4	11.6	4.9	4.5	4.4	5.1	5.0	4.9
Imports	YoY	1.1	1.5	3.7	-1.1	1.6	2.6	3.0	5.7	3.1	3.0	3.1
	SAAR				-7.2	13.8	3.3	3.0	3.0	3.1	3.0	3.3
CPI	YoY	0.9	1.9	1.9	1.4	2.2	2.1	2.0	1.9	1.7	1.9	2.1
Core CPI	YoY	1.2	1.7	2.0	1.3	1.7	1.9	1.9	2.0	1.9	2.0	2.0
Unemployment Rate	%	7.1	6.9	6.6	7.0	7.0	6.8	6.9	6.9	6.6	6.5	6.5
Current Account Balance	C$bn	-60.3	-52.9	-52.3	-49.5	-54.6	-55.6	-51.7	-55.4	-54.7	-50.7	-48.3
	% of GDP	-3.2	-2.7	-2.5	-2.6	-2.8	-2.8	-2.6	-2.7	-2.7	-2.4	-2.3
Net Exports (Pct. Contrib.)		0.3	0.6	0.4	1.6	-0.8	0.4	0.4	0.4	0.6	0.6	0.4
Inventories (Pct. Contrib.)		0.3	0.2	0.0	-0.1	-0.3	0.0	0.0	0.1	0.1	0.1	0.1
Budget Balance (Fiscal Year)	% of GDP	-0.9	-0.1	0.3								
Federal Budget Debt	% of GDP	32.4	31.0	29.4								
General Govt. Debt	% of GDP	93.5	92.2	90.3								

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

Australia

Paul Brennan

Joshua Williamson

The June quarter inflation provided a timely reminder to markets that the RBA is unlikely to cut rates further. Indeed, the Bank's preferred measure of underlying inflation was close to the top of the 2%-3% target. Inflation now needs to fall to validate the RBA's forecast of 2½% by the end of this year. We think this may be slightly optimistic. But even if it does occur, this would only be consistent with the RBA's neutral bias. At the same time, there has been little new information to materially shift the RBA's views on the outlook for the economy over the next 12 months. Downside risks from China's slowdown seem to have abated and the AUD, while a headwind, has remained fairly stable. Domestically, unemployment is still a little below the RBA's forecast, business conditions are moderately below average, while consumer sentiment has retraced almost all of the federal-Budget-related plunge to sit around average levels. We continue to see rates staying on hold through to around mid-2015.

New Zealand

Paul Brennan

Joshua Williamson

Having raised the OCR by 100bps to a relatively high 3.50%, the RBNZ Governor signalled that rates would temporarily remain on hold. With less upside pressure in the housing market, falling dairy prices and evidence that the economy has already started adjusting to the rate hikes that began in March, we expect no more hikes at the September 11 and October 30 OCR reviews. A pause should not be viewed as an end to the tightening cycle though. Official interest rates remain on the accommodative side of neutral. With output growth above potential there may be the need for further OCR hikes in the medium-term to contain inflationary expectations. We expect the next rate hike come to come in December, but the risk is that it gets pushed out to January 2015. The exchange rate remains high and the latest comment from the RBNZ Governor was the strongest wording against the strength in the New Zealand dollar to date. His language - calling FX strength "unjustified and unsustainable" - does not support any near-term policy action that could push it higher.

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

	Australia			New Zealand		
	2013	2014F	2015F	2013	2014F	2015F
Real GDPa	2.4%	3.5%	3.0%	2.8%	3.5%	2.9%
Real GDP (4Q versus 4Q)	2.7	3.3	3.0	3.3	3.0	2.9
Real Final Domestic Demand	0.9	1.5	1.7	4.4	5.3	4.0
Private Consumption	2.0	2.5	3.0	3.7	3.3	3.0
Govt. Current & Capital Spendingb	1.1	1.9	2.0	1.3	3.0	3.0
Housing Investment	2.0	10.0	9.2	15.0	16.0	14.4
Business Investmentc	0.4	-6.1	-6.5	9.3	13.0	7.0
Exports of Goods & Services	6.5	11.0	7.9	1.0	1.5	2.5
Imports of Goods & Services	-2.2	-1.1	4.7	8.7	7.6	4.7
CPI	2.4	2.6	2.5	1.1	2.1	2.2
CPI (4Q versus 4Q)	2.7	2.2	2.6	1.6	2.1	2.3
Unemployment	5.8	6.0	5.9	6.0	5.3	5.0
Merch. Trade, BOP (Local Currency, bn)	4.5	20.6	20.9	1.4	-0.1	-2.5
Current Account, (Local Currency, bn)	-50.2	-29.0	-33.4	-7.5	-9.6	-13.0
Percent of GDP	-3.2	-1.8	-2.0	-3.4	-4.2	-5.4
Budget Balanced (Local Currency, bn)	-18.7	-50.4	-30.8	-6.4	-3.8	-0.9
Percent of GDP	-1.2	-3.1	-1.8	-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	2.8	7.4	6.7	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

Minggao Shen

Shuang Ding

The word “new normal” has recently been added to the top leaders’ vocabulary, suggesting the government no longer aims at growth that substantially exceeds potential. However, the government is not yet ready to accept a sharp growth downturn for the benefit of economic restructuring. The bottom-line is that the leaders have committed to doubling 2010 GDP by 2020, which requires a minimum average growth of 6.8% during 2014-2020, and the government would like to build a buffer early on. Therefore, we expect the government to tap the remaining policy space to prevent growth from falling too far below 7% by 2020, but the economy may quickly transit to 5-6% growth after 2020 as potential growth falls and policy space shrinks. Meanwhile, the leverage ratio of the economy is bound to increase further in the next few years.

Growth may stage a mild rebound in 2H. In the next couple of quarters, improving external demand and targeted policy easing will likely offset the downside from the property market correction. Since the beginning of the year, the PBOC’s open market operations, targeted RRR cuts and re-lending have ensured adequate liquidity in the market, and interbank rates and corporate bond yields have trended down. The Citi credit condition index, which usually leads growth by roughly six months, bottomed out in 4Q 2013, and improved in 1H. We have upgraded our 2014 growth forecast from 7.3% to 7.5% to reflect (i) higher-than-expected growth in 2Q; (ii) faster-than-expected money and credit growth in 1H; and (iii) decent land sales revenue that could sustain infrastructure investment in the short run. Growth stabilization may encourage fiscal, hukou and SOE reforms in the months ahead.

But a further slowdown in property investment will probably weigh on growth in 2015. We expect property investment to stay below 10% at least in the next 3 years to digest the excessive supply. The sluggish property market would in turn sour developers’ appetite for land purchases, reducing local governments’ revenue from land sales. The government may lower its growth target to 7.0% in 2015, reflecting increasing conviction in policy-making circle that growth of around 7% should be enough to meet the job growth target. We expect growth to turn down in 2015, but revise 2015 growth slightly from 7.0% to 7.1% to reflect the prospect of better credit conditions.

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

					2014F				2015F			
		2013	2014F	2015F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	7.7%	7.5%	7.1%	7.4%	7.5%	7.5%	7.7%	7.5%	7.2%	6.8%	7.0%
Real Final Domestic Demand	YoY	8.5	7.3	7.0								
Consumption	YoY	7.9	7.4	7.2								
Fixed Capital Formation	YoY	9.1	7.1	6.8								
Industrial Production	YoY	9.7	9.1	8.5	8.7	8.9	9.2	9.6	9.2	8.6	7.8	8.2
Exports	YoY	7.8	5.1	7.0	-3.4	5.0	8.0	10.0	7.0	7.0	7.0	7.0
Imports	YoY	7.3	4.4	6.0	1.7	1.5	6.0	8.0	6.0	6.0	6.0	6.0
Merchandise Trade Balance	$bn	259	287	328	17	86	76	109	23	97	86	122
FX Reserves	$bn	3,821	4,079	4,285	3,950	3,990	4,020	4,079	4,061	4,123	4,174	4,285
Current Account	% of GDP	2.0	2.0	2.0								
Fiscal Balance	% of GDP	-1.9	-2.1	-2.0								
General Govt. Debt*	% of GDP	53.7	54.0	53.6								
Urban Unemployment Rate	%	4.1	4.2	4.3	4.1	4.2	4.2	4.3	4.3	4.3	4.3	4.3
CPI	YoY	2.6	2.3	2.6	2.3	2.2	2.3	2.4	2.6	2.7	2.5	2.7
Exchange Rate (end period)	CNY/$	6.05	6.11	6.02	6.22	6.20	6.16	6.11	6.05	6.03	6.03	6.02
1-Yr Deposit Rate (end period)	%	3.00	3.00	2.75	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.75

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

Rohini Malkani

Anurag Jha

The Indian economy may be turning a corner as reflected in recent macro data trends. Industrial growth has picked up, exports have been rising at double digits and CPI inflation has slowed to a 30-month low. These sentiments were echoed by the ~50 institutional investors we met across all asset classes in London. The mood among investors (UK Trip Tales) was undoubtedly bullish, with India being a consensus over-weight vs other EMs largely due to it "now" having the (1) cleanest political story coupled with a strong credible central bank; and (2) a move towards the perfect "macro" constellation of a likely pick-up in growth, lower inflation and CAD in check. Despite our above-consensus view on GDP and potential easing of rates in early 2015, investors appear more bullish than us.

The first budget of the Modi government received a lukewarm response from markets, possibly due to lack of specifics on retrospective taxation, GST timelines etc. However given the resolve towards fiscal consolidation (4.1% in FY15 to 3% by FY17), a focus on infrastructure (higher outlays across roads, rail, ports, gas pipelines, waterways) and investment (easier infrastructure financing, FDI in defense and insurance), the disappointment was short-lived. As regards the fiscal arithmetic, the revenue assumption does appear a tad optimistic (17.7% growth), but given the room to adjust planned expenditure, we think the fiscal deficit target remains achievable.

Based on recent industrial trends and policy thrust, we keep our view that GDP growth will recover to 5.6% in FY15 and 6.5% in FY16. While a deficient monsoon is a near-term risk factor, the medium-term recovery remains intact in our view. As regards inflation, the easing trend in headline and core CPI suggest that pro-active measures taken by the government, coupled with RBI's anti-inflationary stance, seem to be working. We expect CPI inflation to average 8% in FY15 and 6.5% in FY16. On monetary policy, with inflation in line with RBI's projected glide path, the room to ease policy rates may open up in early 2015. On the external front, the trade deficit for 1QFY15 remained stable at US$33bn v/s US$28bn last quarter despite some relaxation in gold import norms. Given our expectation of moderate levels on CAD (1.9% of GDP in FY15), and robust capital flows, we expect a balance of payment surplus of US$33bn in FY15. Despite a large BoP surplus, we see INR in 59-62 range as the RBI will probably look to build import cover (currently at 8 months) and prevent undue appreciation in the real exchange rate.

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

		FY 13/14F	FY 14/15F	FY 15/16F
Real GDP	YoY	4.7%	5.6%	6.5%
Final Domestic Demand	YoY	3.1	4.6	6.7
Private Consumption	YoY	4.8	5.5	7.0
Fixed Investment	YoY	-0.1	2.5	6.5
Exports	YoY	8.4	11.0	9.3
Imports	YoY	-2.5	9.5	9.0
Wholesale Price Index	YoY	5.9	5.5	5.0
Consumer Price Index	YoY	9.5	8.0	6.5
Current Account	US$ bn	-32	-39	-48
	% of GDP	-1.7	-1.9	-2.0
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	61.1	62.5

Sources: Haver Analytics and Citi Research forecasts

Korea

Jaechul Chang

Amidst growing concerns over economic slowdown, the government announced decisive stimulus measures, including extra spending (around KRW12trn or US$11.7bn), housing market deregulation (relaxation of LTV and DTI), and other policies to support household consumption, employment, and investment. It also plans to expand the 2015 budget, in our view, by about 6% or +0.25%p more (extra KRW8.7trn) than previously planned. For policy coordination, we expect the BoK to cut the policy rate by 25bps in Aug and to expand the Bank Intermediate Lending Support Facility — to provide low-interest loans to SMEs — from KRW12trn to KRW15trn. The government expects these efforts together will lift economic growth to above 4% this year and in 2015. It is worth noting that the government began with the President Park's "474 Plan" — economic growth of 4%, employment to population ratio of 70%, and per capita income of US$40K. With these measures, the economy is likely to add 0.2-0.4%p growth gain in 2014-15. Therefore, we keep our growth forecasts for 2014 and 2015 at 3.9% and 4.0% respectively, despite the BoK's and the government's recent downgrade of economic growth by 0.2-0.3%p for 2014-15.

Indonesia

Helmi Arman

The elections have concluded with Jokowi and Jusuf Kalla leading by 53.15 — 46.85% against Prabowo - Hatta, representing a very substantial 8 million votes lead. Prabowo has not fully conceded but we see little room to successfully alter the results. Tensions appear to lack momentum and will likely recede from here, in our view. Attention going forward may focus on events that could influence the efficacy of Jokowi's next government; i.e. any broadening of the parliamentary coalition as well as cabinet formation. The recent resolution of political uncertainty should be IDR positive but we are cautious that the economy still faces significant challenges ahead. YoY inflation in coming months will see high base effects which probably will reduce inflation below 5%. However we are revising our FY14 CA deficit forecast to $26bn or 3.0% of GDP, from previously 2.8% GDP. This follows a significant weakening of the outlook on primary commodity exports. Coal prices have slid below $70/ton in July. Moreover, we previously expected an H2 recovery of mineral concentrate exports, but this now looks unlikely to materialize given delays in negotiations between the government and the US mining companies. Along with the weaker export outlook, we have also revised down our FY14 GDP growth forecast to 5.1%, from previously 5.3%.

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

		Korea			Indonesia		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	3.0%	3.9%	4.0%	5.8%	5.1%	5.2%
Final Domestic Demand	YoY	2.8	2.7	4.1	5.1	5.0	4.8
Private Consumption	YoY	2.0	2.1	3.5	5.3	5.0	4.3
Fixed Investment	YoY	4.2	3.8	5.2	4.7	5.6	7.0
Exports	YoY	4.3	5.1	7.0	5.3	-1.8	3.4
Imports	YoY	1.6	4.0	6.7	1.2	-3.6	2.4
Consumer Price Index	YoY	1.3	1.9	2.9	6.4	6.5	6.7
Unemployment Rate	%	3.1	3.5	3.1	5.8	6.5	6.3
Current Account	US$ bn	79.9	72.3	48.9	-29.1	-25.8	-23.7
	% of GDP	6.1	4.9	3.1	-3.3	-3.0	-2.5
Fiscal Balance	% of GDP	1.0	0.9	1.5	-2.2	-2.4	-2.2
US Dollar Exchange Rate	Average	1095	1032	1011	10449	11693	12009

Source: Haver Analytics and Citi Research forecasts

Hong Kong

Adrienne Lui

2H growth is likely to fare better, at about 3.7%YoY versus roughly 2.7% YoY in H1; with nearterm China worries subsiding. However, there are domestic issues to watch in 2H. First, political issues will likely occupy the summer — we believe the odds of "Occupy Central" protests to take place in August are rising. We expect brief disruptions of central business district operations, potential short-term tightening in the HKD funding market and for HK risk premium to rise longer term. Second, we will likely get more clarity in the fall when China decides on whether to tighten its tourist visa policy to visit HK, which could bring downside risk to the already-soft trend in retail sales (May: -4.1%yoy). Interest rate uncertainty may well resurface as the end of tapering approaches in October. HKMA intervention is likely to continue, following strong business activities pushing the HKD towards its strong end.

Singapore

Kit Wei Zheng

Despite a likely small upward revision in 2Q GDP to a small sequential expansion, we are trimming our 2014 GDP forecast to 3.1% from 3.5% last month on weaker-than-expected H1 growth. The official forecast range may well be narrowed to 2.5-3.5% YoY. Disinflationary forces are also intensifying on falling COE premiums and rentals and we are cutting our 2014 inflation forecast to 1.2% from 1.4% last month, with headline inflation likely to fall below 1% from August. MAS's comments that core inflation remains "well contained" have reduced the risk of monetary tightening in October. But easing remains unlikely as official growth expectations have not changed materially, while core inflation expectations remain above the target of 2.5%. Property policy easing is likely only in 2015, after prices have corrected more, household leverage has been trimmed and interest rates rise.

Taiwan

Adrienne Lui

We expect 2H14 GDP to improve to 3.5%YoY from our 1H14 forecast of 2.9%YoY. June's better-than-expected export orders and industrial output support our view that the trade outlook will further improve in 2H14. We believe the recent FX level (around 30/USD) is conducive for this gradual trade-improving environment. Continual capital inflows and interest in the tech story are also supporting the currency and the stock market. The CBC recently tightened LTV standards on renewed signs of property price increases, targeting property investors (multiple or corporate) and high-end properties. We believe extra macro prudential measures are likely to further rein in the property market, if property risks spread beyond existing restricted zones. We think CBC likely to stay pat until early 2015 before hiking rates, on our benign inflation outlook for the rest of this year.

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

		Hong Kong			Singapore			Taiwan		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.9%	3.2%	3.6%	3.9%	3.1%	4.1%	2.1%	3.2%	3.7%
Final Domestic Demand	YoY	3.8	2.2	2.4	1.8	0.1	1.9	2.2	1.7	2.4
Private Consumption	YoY	4.2	2.1	2.4	2.6	2.2	0.9	1.8	1.8	2.8
Fixed Investment	YoY	3.3	2.7	2.8	-1.9	0.1	2.7	5.3	1.9	3.4
Exports	YoY	6.5	4.1	6.3	3.6	4.0	3.6	3.8	4.9	6.2
Imports	YoY	6.9	3.9	5.7	3.1	3.4	2.2	4.0	4.2	5.2
CPI	YoY	4.3	3.8	3.5	2.4	1.2	1.0	0.8	1.5	2.0
Unemployment Rate	%	3.4	3.1	3.1	1.9	2.0	2.1	4.2	4.0	3.9
Current Account	US$ bn	5.1	8.1	9.6	54.6	61.1	66.0	57.4	55.7	54.9
	% of GDP	1.9	2.8	3.2	18.3	18.0	18.0	11.7	11.0	10.2
Fiscal Balance	% of GDP	1.0	1.3	0.7	1.1	-0.3	-0.5	-1.4	-1.4	-0.8
US Dollar Exchange Rate	Average	7.76	7.75	7.75	1.25	1.25	1.25	29.68	30.09	29.95

Source: Citi Research

Russia

Ivan Tchakarov

The newly-imposed sanctions by the US and EU will make for a more challenging backdrop to the Russian economy, creating additional risks to growth. The combination of more subdued investment and consumption spending related to heightened uncertainty, and tighter monetary policy, lead us to downgrade our 2014 GDP forecast from 1.0% to 0.7%. Nevertheless, we still maintain a more positive view on macroeconomic performance than the consensus and Russian government, which see GDP growth at 0.5%. Our more sanguine view has always been based on the belief that the market has been embedding an inordinately large risk premium to assessing economic performance. And indeed, after the very large first-quarter contraction in fixed investment (-4.9% YoY), which has been the key GDP component suffering from the geopolitical tension, incoming data has been pointing to a significant moderation in the pace of decline, with fixed investment declining by 1.6% YoY in 2Q and actually emerging into a positive territory in June (0.5% YoY) for the first time this year. We now anticipate that the new — more severe — sanctions may reverse this momentum in fixed investment, thus forcing us to trim our 2014 GDP forecast. However, given that preliminary data suggests that 1H GDP already grew at a stronger-than-expected 1.0%, we anticipate that full-year GDP performance at 0.7% will still be higher than the consensus view of 0.5%.

Turkey

Ilker Domac

The post-election rebound in consumer confidence seems to be softening in recent months, leading us to look for subdued private spending in 2H. The ongoing weakness in private investment is of particular concern. The recent retail trade and PMI data — along with soft credit growth — also corroborate our expectations of subdued economic activity, which should become more visible in the coming months. Against this backdrop, while we keep our forecast for 2014 GDP growth at 3.5%, we have become more cognizant of downside risks. Turning to monetary policy, shrugging off risks, it looks like the CBT will maintain its dovish stance and carry out additional easing (e.g. another 50bp cut at the August meeting) if the lira and global markets permit. However, the fact that external factors can easily become less benign leads us to believe that the CBT risks repeating past mistakes. Looking ahead, we believe that the CBT's dovish stance and uncertainties associated with the domestic politics and geopolitical risks do not bode well for rendering Turkish assets attractive in the short-run.

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

		Russia			Turkey		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.3%	0.7%	2.3%	4.0%	3.5%	3.5%
Final Domestic Demand	YoY	2.7	1.0	2.5	4.7	0.5	3.4
Private Consumption	YoY	4.7	2.8	3.0	4.6	2.4	3.2
Fixed Investment	YoY	-0.1	-2.7	3.0	4.3	-8.1	4.0
Exports	YoY	4.2	2.0	2.1	0.1	9.8	4.4
Imports	YoY	3.7	4.5	5.0	8.5	-2.3	4.0
CPI	YoY	6.8	7.0	5.6	7.5	8.8	7.4
Unemployment Rate	%	5.5	5.7	5.8	9.1	9.5	9.5
Current Account	US$ bn	32.8	54.9	39.2	-65.1	-44.1	-50.3
	% of GDP	1.5	2.7	1.9	-7.9	-5.4	-5.8
Fiscal Balance	% of GDP	-2.1	-4.4	-4.9	-1.2	-2.8	-3.2
US Dollar Exchange Rate	Average	31.9	35.6	37.9	1.91	2.14	2.25

Sources: Haver Analytics and Citi Research forecasts

Hungary

Eszter Gargyan

Growth momentum has slowed in 2Q14 in line with the European trends. Due to base effects we expect annual GDP growth to remain close to 3.4% in 2Q14, which may be followed by a sharper drop in annual growth in 2H14, keeping GDP growth below 3% for this year and around 2% next year. The NBH has surprised markets with a 20bp cut and announced the end of its 24-month rate cutting cycle in July. Governor Matolcsy has announced forward guidance on interest rates by stating that the base rate should remain at the current 2.1% level until late-2015 unless the 3% inflation target is in danger. Given that Hungary, as a small and open economy with a large stock of external debt, is highly exposed to external factors, we believe the Hungarian rate outlook depends primarily on the evolution of core market yields and global risk premium. Based on the soft inflation outlook and the government's plans to convert household FX loans in local currency, we believe the NBH may tolerate somewhat a weaker FX trend and keep interest rates low in an effort to keep fiscal interest expenditures and NBH sterilization costs under control. Our base line forecast is that the NBH will start gradual rate hikes in 3Q15 as we near the first Fed fund rate hike and we project the base rate at 3.10% by end-2015 — with downside risks if Fed tightening will be postponed further.

Poland

Piotr Kalisz

Cezary Chrapek

Recent weeks saw a series of worse-than-expected data from Poland, including retail sales, industrial output and the PMI. However, after taking these indicators into account, we estimate growth is likely to remain relatively robust at 3% or slightly higher in 2Q. In turn, consumer price inflation surprised to the upside and reached 0.3% YoY in June but this reading still seems consistent with a scenario of slight deflation in July-August. The mix of subdued inflation and a soft patch in growth data has helped fuel interest rate expectations and support the Polish bond market. The possibility of rate cuts may be discussed by Polish central bankers, but it seems to us they will prefer to postpone this decision until 4Q when the central bank presents its updated inflation projection. Since by that time we expect to see signals of more significant rebound in the Polish economy, we believe the MPC will eventually decide to keep rates on hold (the FRA market is pricing in one full rate cut around October and partly pricing another cut by the end of this year). The fiscal situation remains strong and the Finance Ministry has already covered fully the 2014 borrowing needs. This should allow Poland to reduce bond supply in 2H 2014, which should support the Polish government bonds market, at least as long as the favourable external environment allows.

Figure 35. Hungary and Poland — Economic Forecasts,2013-15F

		Hungary			Poland		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.1%	2.9%	1.9%	1.6%	3.4%	3.6%
Final Domestic Demand	YoY	1.6	2.4	1.2	0.9	3.7	3.7
Private Consumption	YoY	0.3	1.8	1.9	0.8	2.8	3.2
Fixed Investment	YoY	5.8	4.5	0.0	-0.2	8.0	6.0
Exports	YoY	5.3	5.9	6.0	4.6	6.6	6.5
Imports	YoY	5.3	5.8	5.9	1.2	7.5	7.5
CPI	YoY	1.7	0.3	2.3	0.9	0.3	2.0
Unemployment Rate	%	9.1	8.6	8.1	13.4	12.4	11.7
Current Account	US$ bn	4.0	4.6	4.3	-6.6	-9.2	-15.9
	% of GDP	3.0	3.6	3.1	-1.3	-1.7	-2.8
Fiscal Balance	% of GDP	-2.2	-2.9	-2.9	-4.3	5.2	-2.7
Euro Exchange Rate	Average	297	311	321	4.20	4.18	4.22

Source: Citi Research

Czech Republic

Jaromir Sindel

Though we keep our GDP growth forecast unchanged at 2.4% in 2014 and 2.7% in 2015, there have been mixed developments during recent months, with asymmetric risks to our forecast. On one side, Q1 GDP growth was revised up to 0.8% QoQ and 2.9% YoY despite a quarterly contraction in industrial value added. On the other hand, monthly data put our momentum indicator at a 9-month low in 2Q14 and we slightly revised downward the foreign demand outlook. We expect GDP to be flat in QoQ terms in 2Q14, cutting the YoY growth rate to 2.7%. Nevertheless, we expect growth to pick up later this year as the July confidence indicator points to roughly 0.6% QoQ GDP growth. We assume somewhat weaker dynamics, at 0.4%QoQ in 2H14 as domestic demand is likely continue to recover, but the industrial/export recovery is likely to weaken. While domestic demand is supported by the confidence indicator that points to 3% YoY growth in retail sales ex. cars, the industrial/export sector may be capped by our weaker outlook on foreign demand. Overall, the main question is whether the recovery in domestic demand will be robust enough to withstand a deceleration of industrial/export activity. Unless we see a recovery in exports, there could be a risk for investment and the labour market. In turn, this could cause the CNB to consider how to further support the economy, beyond the current policy of postponing the exit from its FX intervention mode (which we expect — in form of a lower EURCZK floor around 26.5 — in 2H15). We look for the first hike in the policy rate in December 2015 or during 2016.

Romania

Ilker Domac

Gultekin Isiklar

Historically-low food price inflation has continued to shape recent inflation outturns, which have been lower than the consensus estimates. We still think that the better-than-expected inflation readings since the beginning of the year do not change the big picture, given sticky services and non-food prices as well as the important contribution of downward administrative price adjustments to the disinflation process so far this year. Against this backdrop, we see year-end inflation at around 3.5% YoY. Regarding monetary policy, the NBR has shrugged off the IMF's recommendation and continues to keep money market rates well below the policy rate. In light of our analysis, we remain skeptical about the effectiveness of this approach in stimulating lending activity and thus in promoting growth. We expect the NBR to keep its policy rate unchanged at 3.5% at the August MPC meeting and during the remainder of the year. The NBR's new Inflation Report (to be released in August) will offer additional insight into the Bank's intentions going forward. In particular, major downward revisions to the NBR's inflation forecasts may have implications for the rate outlook, which could lead us to revisit our forecast trajectory.

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

		Czech Republic			Romania		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-0.9%	2.4%	2.7%	3.5%	3.0%	3.4%
Final Domestic Demand	YoY	-0.5	2.3	2.3	0.0	1.8	3.3
Private Consumption	YoY	0.1	1.3	2.3	1.3	1.5	3.5
Fixed Investment	YoY	-3.5	4.9	3.5	-3.4	3.2	3.5
Exports	YoY	0.2	10.0	8.1	13.1	5.5	4.5
Imports	YoY	0.6	9.1	7.7	2.3	3.0	4.0
CPI	YoY	1.4	0.5	1.8	4.0	1.7	3.4
Unemployment Rate	%	7.0	6.7	6.4	5.3	5.5	5.5
Current Account	US$ bn	-2.9	2.8	3.2	-2.0	-5.0	-9.0
	% of GDP	-1.4	1.4	1.5	-1.1	-2.5	-4.2
Fiscal Balance	% of GDP	-1.5	-2.0	-2.5	-2.5	-2.3	-2.3
EURCZK, USDRON	Average	26.0	27.5	27.2	3.3	3.3	3.3

Sources: Haver Analytics and Citi Research forecasts

Brazil

Marcelo Kfoury

The campaign for October's presidential election is now formally underway, with incumbent Dilma Rousseff leading the polls with almost 40% of voting intentions, followed by the opposition candidate Aecio Neves (from PSDB) with around 20% of votes. Second round simulations indicate a significantly narrower gap (less than 10pp), reinforcing our view that this election will have the tightest outcome since the 1990's. President Rousseff's level of approval (of around 32%) looks low when compared to FHC in September 1998 (43%) and Lula da Silva in September 2006 (47%), supporting our prognosis. Overall, we keep our crucial assumption that President Roussueff will be re-elected and that no meaningful changes in economic policy making will take place in her next term. We expect primary fiscal surplus to rise slightly to 2% of GDP (from 1.5%), with additional interest rate hikes next year (Selic rate at 12.5% at 2015 yearend) requiring to control CPI inflation (to 6.3% in 2015 from 6.6% this year). We are also keeping our 2014 and 2015 GDP growth estimates at 0.9% and 1.2%, respectively. We see the USD/BRL at 2.4 and 2.58 by the end of 2014 and 2015, respectively. Cuts to the policy rate look less likely following the latest minutes, although they should not be fully ruled out.

Mexico

Sergio Luna Martinez

Recent data point to faster growth in 2Q14. The IGAE – a monthly proxy of GDP – grew 2.4%YoY in April-May, up from 1.2%YoY in 1Q14. This was driven by external demand. However some domestic items, such as construction, are still recovering very slowly. We now see 2H14 growth averaging 3.5%YoY, versus 4.0% a month ago. We have revised our GDP growth forecast for 2014 as a whole to 2.7%, from 3.0%. Meanwhile, after annual inflation had surprised on the downside in previous months, it has now started to rebound. We expect the slight uptrend to go on for a few months. Nevertheless, the changes in our activity outlook lead us to adjust our headline inflation forecast to 3.7% for year-end 2014 from 3.8% before, and we have also adjusted our year-end 2015 estimate to 3.3% from 3.5%. We now see a slower hiking cycle for 2015; we now expect the policy rate to close 2015 at 3.75%, versus 4% before. On the political front, the telecom reform has been enacted by President Peña. The 21 secondary energy laws should be approved in August.

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

		Brazil			Mexico		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.3%	0.9%	1.2%	1.1%	2.7%	3.9%
Final Domestic Demand	YoY	2.9	1.1	1.3	1.4	2.6	4.1
Private Consumption	YoY	2.3	1.6	1.9	2.5	2.4	3.6
Fixed Investment	YoY	6.3	-3.2	1.1	-1.8	3.2	6.9
Exports	YoY	2.5	2.2	6.8	1.2	6.8	6.7
Imports	YoY	8.4	2.6	4.4	1.5	6.3	8.3
CPI	YoY	6.2	6.4	6.4	3.8	3.9	3.4
Unemployment Rate	%	5.5	5.8	5.9	5.0	4.8	4.5
Current Account	US$ bn	-81.4	-82.3	-84.9	-25.7	-22.7	-24.2
	% of GDP	-3.7	-3.7	-3.9	-2.0	-1.7	-1.7
Fiscal Balance	% of GDP	-3.3	-3.9	-3.4	-2.3	-3.5	-3.0
US Dollar Exchange Rate	Average	2.16	2.30	2.53	12.76	13.02	12.99

Source: Citi Research

Argentina

Guillermo Mondino

Markets and the press have been focused, for most of the last few weeks, on the debt vicissitudes. In the meantime, macroeconomic fundamentals have continued deteriorating. Particularly, fiscal money printing has been soaring, roughly trebling from one year ago. Meanwhile, activity remains weak and inflation – although it has decelerated — is still high. According to our estimates, real GDP shrank 1.7% YoY in 2Q14, after dropping 0.6% YoY in 1Q14. We expect output to decrease 1.7% and 2.2% in 3Q14 and 4Q14, respectively, and 1.5% for 2014 as a whole. Despite the drop in activity, inflation remains high; 2.2% MoM and 39.9% YoY in June, according to opposition congressmen. We believe that the sticky inflation has pushed the government to maintain a slow pace of depreciation of the official FX rate. However, the government will eventually have to allow the peso to depreciate faster. We see the official USDARS at 9.2 by yearend, and at 13 by the end of 2015.

Venezuela

Munir Jalil Menuet

The Venezuelan economy continues to suffer from low levels of production and imports, which translate into low availability of goods and inflation. Unfortunately data on activity and inflation is not being published despite the fact it is still being produced. The implementation of the alternative FX market known as SICAD II has not provided the relief the government expected and this is the reason why we will likely be hearing about changes to the FX system in the near future (two to three months). Although there is a lot of speculation regarding what the new FX system will look like, our view is that the country will switch from a three-tier system to a two-tier one, which means that the 6.3 exchange rate will disappear and that the SICAD I and SICAD II rates will remain. In addition, we believe that before this change is implemented the government will announce increases in gasoline prices as well as utilities, and will also implement the unification of all USD available around the central bank's international reserves. The latter would help to provide an answer to the old question of how much of the assets available in the special funds are liquid.

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

		Argentina			Venezuela		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	3.0%	0.0%	1.0%	1.3%	-1.0%	1.9%
Final Domestic Demand	YoY	4.4	-0.2	1.2	-0.3	-1.1	0.7
Private Consumption	YoY	4.3	0.6	1.4	3.7	0.1	0.3
Fixed Investment	YoY	3.0	-4.2	-0.3	-3.5	-3.5	0.9
Exports	YoY	-5.3	-1.5	-1.5	-3.8	1.3	4.2
Imports	YoY	1.6	-2.0	0.0	-4.6	-0.7	-1.0
CPI	YoY	10.6	NA	31.8	38.5	61.7	82.5
Unemployment Rate	%	7.1	7.7	8.1	5.6	4.8	4.0
Current Account	US$ bn	-4.3	-5.0	-5.3	12.2	14.9	18.2
	% of GDP	-0.7	-1.1	-1.2	3.3	4.1	5.1
Fiscal Balance	% of GDP	-1.9	-2.4	-2.4	-11.9	-11.2	-10.3
US Dollar Exchange Rate	Average	5.45	8.38	11.15	5.99	9.15	19.80

Sources: Haver Analytics and Citi Research forecasts

Saudi Arabia

Farouk Soussa

As the advance of ISIS in Iraq poses a theoretical (but small) risk of disruption in global oil supplies, the focus has turned to Saudi Arabia's ability to make up any potential shortfall in Iraqi exports. Saudi oil production has been in the 9.6mbpd-10mbpd range since mid-2013, while capacity remains at around 12.5 mbpd. The Kingdom has never pumped more than 10mbpd on a sustained basis, and the ease with which it can cover any Iraqi crude losses is thus uncertain. That said, heightened concerns about global supply risks suggest a firm underpinning to Saudi production, in our view, which we believe is likely to be sustained in the near term. We recently raised our expected average 2014 production for Saudi Arabia from 9.2mbpd to 9.5mbpd (on par with 2013) as a result. We expect public finances and external balances to remain robust in the near term, with a current account surplus of 14.8% of GDP this year, real GDP growth of 4.8%, and fiscal surplus of 6.2% of GDP. That said, we think that rising expenditures and an expected levelling off in oil revenues and production will present challenges in the medium to long-term. We forecast the fiscal breakeven oil price will rise to close to US$100 per barrel in 2015 and higher thereafter, 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

Farouk Soussa

We continue to harbour concerns regarding the pace of asset price inflation in Dubai. Cluttons data available on Bloomberg suggests there has been a levelling off in residential prices in 2014, but data from Jones Lang Lasalle’s Q1 Dubai property market report suggests that prices continue their upward trajectory, albeit at a somewhat reduced pace. Either way, prices are up around a third on average across Dubai over the last year, with some areas seeing prices in excess of the 2008 peak. The number of announced projects and the sharp rise in land transactions over the past year and during the first quarter (value of transactions rose 57% YoY) suggest that momentum remains high, driven by strong investor confidence. We maintain our view that Dubai’s resilience to any potential property-led volatility is, at this point, much greater than it was in mid-2008, at the height of the previous property bubble. That said, Dubai’s economy is dynamic and fast-changing. We remain cautious — should we see a sharp rise in construction and/or leverage related to the housing market, we believe Dubai’s vulnerabilities will once again increase.

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

		Saudi Arabia			United Arab Emirates		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	4.0%	4.8%	5.9%	5.2%	4.0%	4.0%
Final Domestic Demand	YoY	0.9	8.0	8.1	9.7	4.7	4.7
Private Consumption	YoY	-0.8	5.0	5.0	11.7	5.0	5.0
Fixed Investment	YoY	-1.0	10.0	10.0	7.3	5.0	5.0
Exports	YoY	-9.3	1.4	-2.4	5.7	13.0	14.0
Imports	YoY	-0.4	15.0	15.0	10.5	15.0	15.0
CPI	YoY	3.5	3.5	4.1	1.1	2.0	2.4
Current Account	US$ bn	133.6	113.9	70.9	114.1	102.2	88.3
	% of GDP	17.9	14.4	8.5	28.4	23.7	19.1
Fiscal Balance	% of GDP	8.7	4.7	-0.1	NA	NA	NA
US Dollar Exchange Rate	Average	3.75	3.75	3.75	3.67	3.67	3.67

Source: Citi Research

Nigeria

David Cowan

Although political uncertainty is set to rise towards the February 2015 elections, we still expect growth to remain robust. While the recent GDP rebasing exercise has made Nigeria Africa's largest economy, it does seem to have led to a downward revision to growth rates in 2011-12, although growth picked up pace in 2H 2013 and we expect growth of around 6% in 2014-15. While the finance minister, Ngozi Okonjo-Iweala, will seek to maintain fiscal discipline for the rest of this year, this will probably become increasingly difficult, while progress with structural reform is likely to stall as political tensions mount. And with probable increases in political tensions, government spending and capital flight, we think the naira could come under a new bout of pressure in 2H 2014 unless the CBN really seeks to aggressively mop up liquidity. Having kept the monetary policy rate on hold after his first MPC meeting in July, all eyes will then be on the new CBN governor, Godwin Emefiele and his potential policy response to this. Having said that, as long as oil production and prices remain robust, we also think that with only a modest tightening of monetary policy, naira weakness will be limited and more substantive policy questions can be put off until after the polls, or to mid-2015.

South Africa

Gina Shoeman

Having already downgraded our 2014 GDP growth forecast to 2.0%, downside risk remains from the current manufacturing strike underway. We estimate that 40% of export sectors are exposed to the strike which also puts the current account deficit at risk. Already, the 22-week platinum strike has weakened GDP growth, causing a negative Q1 print. Add in another strike and the economy may have to face another quarter of negative GDP growth in Q3. And while this means the economy should avoid a technical recession (Q2 GDP should rebound into shallow positive territory purely off base effects), it would lower the 2014 GDP outlook. With still-high inflation this makes monetary policy decisions tricky however, we believe the SARB remains intent on its price stability mandate and hence, policy rate normalization. This was seen in its July MPC decision to hike rates 25bp and we believe another 25bp hike is likely in September before a possible pause until the Fed moves (expected in 2015). Lower GDP growth will put pressure on the budget deficit, which was a key reason to S&P's recent foreign currency ratings downgrade to BBB-. With October's Medium-Term Budget looming, we expect some hints of measures to lift tax revenues, with indication that the VAT rate could rise.

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

		Egypt			Nigeria			South Africa		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.5%	2.4%	3.2%	5.5%	6.0%	6.4%	1.9%	2.0%	2.8%
Final Domestic Demand	YoY	2.5	3.0	3.5	NA	NA	NA	2.9	2.7	3.2
Private Consumption	YoY	3.7	2.0	2.6	NA	NA	NA	2.6	2.4	3.1
Fixed Investment	YoY	2.1	1.6	9.9	NA	NA	NA	4.7	3.8	4.1
Exports	YoY	-6.3	2.2	5.6	NA	NA	NA	4.2	6.6	5.5
Imports	YoY	-3.4	4.7	7.2	NA	NA	NA	4.7	4.0	6.8
CPI	YoY	9.5	9.1	7.8	8.5	8.7	10.7	5.8	6.5	5.8
Unemployment Rate	%	13.4	14.2	14.5	NA	NA	NA	24.7	25.0	24.6
Current Account	US$ bn	-3.3	-6.8	-6.4	20.1	5.6	8.2	-20.4	-16.9	-15.4
	% of GDP	-1.3	-2.5	-2.1	3.9	1.0	1.3	-5.8	-4.9	-4.2
Fiscal Balance	% of GDP	-13.7	-11.8	-9.9	-1.6	-2.0	-1.8	-4.1	-4.0	-4.0
US Dollar Exchange Rate	Average	6.87	7.09	7.32	159.2	163.32	167.42	9.65	10.70	11.01

Source: Citi Research

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

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Asia	6.3	6.3	6.3	3.7	3.3	3.4	2.2	2.2	2.0	-2.3	-2.4	-2.2
China	7.7	7.5	7.1	2.6	2.3	2.6	2.0	2.0	2.0	-1.9	-2.1	-2.0
Hong Kong	2.9	3.2	3.6	4.3	3.8	3.5	1.9	2.8	3.2	1.0	1.3	0.7
India	4.7	5.6	6.5	9.5	8.0	6.5	-1.7	-1.9	-2.0	-6.9	-6.7	-6.5
Indonesia	5.8	5.1	5.2	6.4	6.5	6.7	-3.3	-3.0	-2.5	-2.2	-2.4	-2.2
Korea	3.0	3.9	4.0	1.3	1.9	2.9	6.1	4.9	3.1	1.0	0.9	1.5
Malaysia	4.7	5.4	5.6	2.1	3.1	4.0	4.0	5.6	4.5	-3.9	-3.5	-3.0
Mongolia	11.7	10.0	9.0	10.5	13.8	12.0	-30.9	-14.1	-18.6	-7.8	-7.6	-4.5
Philippines	7.2	6.3	6.4	2.9	4.4	4.0	3.5	3.6	3.4	-1.4	-1.8	-1.6
Singapore	3.9	3.1	4.1	2.4	1.2	1.0	18.3	18.0	18.0	1.1	-0.3	-0.5
Sri Lanka	7.3	7.4	7.4	6.9	4.5	6.2	-3.9	-3.3	-3.1	-5.9	-5.6	-5.3
Taiwan	2.1	3.2	3.7	0.8	1.5	2.0	11.7	11.0	10.2	-1.4	-1.4	-0.8
Thailand	2.9	1.1	4.0	2.2	2.2	2.1	-0.7	2.2	1.7	-1.8	-1.2	-1.8
Vietnam	5.4	5.4	5.7	6.6	4.9	6.0	5.6	5.1	4.1	-5.6	-6.4	-6.0
Latin America	2.5	1.7	2.5	7.3	9.2	10.1	-1.7	-2.7	-2.8	-3.2	-3.7	-3.3
Argentina	3.0	0.0	1.0	10.6		31.8	-0.7	-1.1	-1.2	-1.9	-2.4	-2.4
Brazil	2.3	0.9	1.2	6.2	6.4	6.4	-3.7	-3.7	-3.9	-3.3	-3.9	-3.4
Chile	4.1	3.0	4.0	1.9	4.0	3.0	-3.4	-2.6	-4.0	-0.3	-0.4	-0.4
Colombia	4.7	5.0	5.5	2.0	2.9	3.5	-3.4	-3.7	-3.6	-0.9	-1.6	-1.5
Costa Rica	3.5	3.1	2.2	5.2	4.4	4.6	-5.1	-7.4	-7.9	-6.5	-7.2	-7.7
Dominican Republic	4.1	5.0	4.5	4.8	3.4	4.2	-4.2	-4.5	-4.8	-4.1	-4.0	-4.2
Ecuador	4.5	4.5	4.5	2.7	3.5	2.5	-1.3	-1.1	-1.2	-5.9	-4.7	-3.7
El Salvador	1.7	2.2	2.5	0.8	1.0	1.7	-6.2	-6.4	-5.7	-4.2	-4.1	-3.7
Mexico	1.1	2.7	3.9	3.8	3.9	3.4	-2.0	-1.7	-1.7	-2.3	-3.5	-3.0
Panama	8.4	6.2	5.5	4.0	3.2	2.8	-11.3	-9.0	-8.5	-3.0	-3.0	-3.0
Peru	5.8	4.0	5.3	2.8	3.2	2.5	18.1	-8.4	-10.7	0.8	0.0	0.0
Venezuela	1.3	-1.0	1.9	38.5	61.7	82.5	3.3	4.1	5.1	-11.9	-11.2	-10.3
Europe	2.0	1.7	2.9	5.3	5.7	5.0	-1.3	-0.1	-0.7	-2.2	-2.4	-3.6
Bulgaria	0.9	1.3	2.5	0.9	-0.8	2.2	1.9	-0.2	-1.0	-1.5	-2.5	-1.2
Croatia	-0.9	-0.5	1.2	2.2	0.1	2.7	0.9	0.5	-0.5	-4.9	-5.0	-3.5
Czech Republic	-0.9	2.4	2.7	1.4	0.5	1.8	-1.4	1.4	1.5	-1.5	-2.0	-2.5
Hungary	1.1	2.9	1.9	1.7	0.3	2.3	3.0	3.6	3.1	-2.2	-2.9	-2.9
Kazakhstan	5.9	5.0	6.0	5.7	6.5	6.0	-0.1	1.0	1.3	3.0	2.3	2.1
Poland	1.6	3.4	3.6	0.9	0.3	2.0	-1.3	-1.7	-2.8	-4.3	5.2	-2.7
Romania	3.5	3.0	3.4	4.0	1.7	3.4	-1.1	-2.5	-4.2	-2.5	-2.3	-2.3
Russia	1.3	0.7	2.3	6.8	7.0	5.6	1.5	2.7	1.9	-2.1	-4.4	-4.9
Serbia	2.5	-0.5	2.3	7.9	2.8	6.2	-4.9	-5.3	-5.5	-5.7	-6.5	-6.5
Slovakia	0.9	2.2	2.7	1.4	0.0	1.0	2.1	1.5	2.7	-2.8	-3.0	-2.6
Turkey	4.0	3.5	3.5	7.5	8.8	7.4	-7.9	-5.4	-5.8	-1.2	-2.8	-3.2
Ukraine	0.0	-5.5	2.1	-0.3	9.9	9.5	-9.3	-4.9	-3.2	-6.7	-4.3	-3.4
Africa/Mideast	3.9	4.5	5.2	4.2	4.4	5.1	11.3	9.8	7.6	1.5	0.7	-1.0
Bahrain	5.3	4.0	4.0	3.3	2.5	2.0	6.8	5.5	1.3	-3.3	-4.5	-6.8
Egypt	1.5	2.4	3.2	9.5	9.1	7.8	-1.3	-2.5	-2.1	-13.7	-11.8	-9.9
Ghana	7.1	5.1	4.0	11.7	15.3	11.1	-12.7	-15.0	-17.1	-9.0	-8.7	-8.0
Iraq	2.4	10.3	11.5	1.9	2.5	5.0	13.9	14.2	13.2	-5.8	-2.3	-1.2
Israel	3.2	2.9	3.0	1.5	0.8	0.8	2.0	1.9	1.7	-2.7	-3.0	-2.5
Jordan	2.8	4.0	4.5	5.5	3.5	5.0	-10.0	-8.9	-6.7	-5.5	-9.6	-9.4
Kenya	4.7	5.3	5.8	5.4	7.1	6.9	-9.0	-7.6	-7.5	-7.8	-6.5	-6.7
Kuwait	5.7	3.8	3.9	2.6	3.0	4.0	39.0	41.4	39.2	30.3	33.8	27.8
Lebanon	1.4	1.1	1.5	2.1	3.5	5.0	-15.8	-15.8	-15.7	-9.3	-9.9	-10.4
Nigeria	5.5	6.0	6.4	8.5	8.7	10.7	3.9	1.0	1.3	-1.6	-2.0	-1.8
Oman	3.4	4.7	4.7	2.1	1.5	3.0	6.1	8.4	6.5	0.8	-0.5	-2.8
Qatar	6.5	5.9	6.2	3.1	3.0	3.5	30.9	29.4	25.1	8.2	4.2	1.2
Saudi Arabia	4.0	4.8	5.9	3.5	3.5	4.1	17.9	14.4	8.5	8.7	4.7	-0.1
South Africa	1.9	2.0	2.8	5.8	6.5	5.8	-5.8	-4.9	-4.2	-4.1	-4.0	-4.0
Tanzania	7.0	7.1	7.2	7.9	6.6	6.1	-10.2	-14.1	-12.4	-6.0	-6.4	-6.5
UAE	5.2	4.0	4.0	1.1	2.0	2.4	28.4	23.7	19.1	NA	NA	NA
Uganda	5.8	6.1	6.5	5.5	4.5	5.0	-8.4	-9.5	-10.1	-4.5	-5.5	-6.0
Zambia	6.2	6.2	6.3	7.0	7.8	8.0	0.2	-1.0	-1.5	-6.5	-5.8	-5.5
Total	4.6	4.5	5.0	4.7	4.9	5.0	2.0	1.9	1.5	-2.1	-2.3	-2.5

Source: Citi Research

Sovereign Ratings

Michael Saunders

Peter Goves

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 Mths) Forecast Rating	Citi Long Term (Next 2-4 Years) Forecast Rating & Outlook		Current Rating	Current Outlook	Citi Near Term (Up to 9 Mths) Forecast Rating		Citi Long Term (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	Stable	Aaa (Stable)		Aaa	
France	AA	Stable	AA (Stable)	AA		Aa1	Neg	Aa1 (Neg)		Aa1	
Italy	BBB	Neg	BBB (Stable)	BBB		Baa2	Stable	Baa2 (Stable)		Baa2	
Spain	BBB	Stable	BBB (Stable)	BBB		Baa2	Pos	Baa1 (Stable)	↑	Baa1	↑
Austria	AA+	Stable	AA+ (Stable)	AA+		Aaa	Stable	Aaa (Stable		Aaa	
Belgium	AA	Stable	AA (Stable)	AA		Aa3	Stable	Aa3 (Stable)		Aa3	
Finland	AAA	Neg	AAA (Neg)	AAA		Aaa	Stable	Aaa (Stable)		Aaa	
Greece	B-	Stable	B- (Stable)	B-		Caa3	Stable	Caa3 (Stable)		Caa3	
Ireland	A-	Pos	A- (Pos)	A+	↑↑	Baa1	Stable	Baa1 (Pos)		A2	↑↑
Netherlands	AA+	Stable	AA+ (Stable)	AA+		Aaa	Stable	Aaa (Stable)		Aaa	
Portugal	BB	Stable	BB (Pos)	BB+	↑	Ba1	Stable	Ba1 (Stable)		Baa3	↑
UK	AAA	Stable	AAA (Stable)	AAA		Aa1	Stable	Aaa (Stable)	↑	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	Stable	Aaa (Stable		Aaa	
ESM	Not rated					Aa1	Stable	Aa1 (Stable)		Aa1	

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

Expected Ratings Issues

Michael Saunders

Peter Goves

Figure 43. Upcoming Rating Calendar

Date	Sovereign	Rating Agency	Current Rating	Current Outlook
1 Aug 14	Greece	Moody's	Caa3	Stable
5 Sep 14	Portugal	Moody's	Ba1	Stable
12 Sep 14	Greece	S&P	B-	Stable
12 Sep 14	Ireland	Moody's	Baa1	Stable
19 Sep 14	France	Moody's	Aa1	Neg
26 Sep 14	Austria	S&P	AA+	Stable
26 Sep 14	Lux	S&P	AAA	Stable

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

Since we last published, there has been no change in EMU sovereign ratings that we detail in our Outlook here. We detail our near-term outlook pertaining to the sovereign rating calendars over the coming weeks.

Moody's on Greece: Greece features on Moody's calendar this Friday and we expect no change in the rating. Moody's rates Greece Caa3 with a stable outlook. In their very latest Credit Opinion (9 July), Moody's stated that "*The stable outlook on Greece's government bond rating balances the government's improving fiscal position and the drop in its debt-service requirements with the country's still-high debt load and political fragility*".

Moody's on Portugal – Upgraded to Ba1: Moody's upgraded Portugal by one-notch from Ba2 to Ba1 stable, citing an improved fiscal condition, its exit from the external support programme, its return to public debt markets and its comfortable liquidity position. Note that this was an "unscheduled" move in the sense that this rating action was not listed on its formal sovereign ratings calendar but was rather necessitated by the conclusion of its "review for upgrade" initiated on 9 May (Portugal was on "positive watch by Moody's". Of recent interest, also note that Moody's had already stated that problems at Banco Espirito Santo are "*unlikely to jeopardize Portugal's improving fundamentals"* (Moody's Announcement 11 July). We expect Portugal to remain Ba1 stable by Moody's over the medium term.

S&P on Greece: S&P affirmed its B- stable rating of Greece earlier in March. We expect no change on 12 September when it next features in S&P's calendar.

Moody's on Ireland: Moody's last comment on Ireland was to note that *"recovery gains traction, but high non-performing loan levels, muted credit availability and high levels of indebtedness will temper growth"*. Having made several upgrades of Ireland this year (from Ba1 in January), we expect further upgrades from both Moody's and S&P in the longer term, especially in light of the better growth outlook.

Moody's on France — Outlook revised to stable?: The significant effort delivered by the government in terms of fiscal consolidation and structural reforms will likely be interpreted positively by rating agencies, in our view. On 8th November 2013, S&P assigned a stable outlook to France's AA rating, leaving Moody's as the last of the main rating agencies to have France with a negative outlook (assigned on 19 November 2012) on its Aa1 sovereign long-term issuer rating. We would expect this situation to change to a stable outlook on 19 September when Moody's has pencilled in a review (*France: More Reforms to Jump Start Confidence?*).

S&P on Austria: We expect no change in Moody's assessment of Austria later in September which has rated the sovereign Aaa with a stable outlook since February.

S&P on Luxembourg: We expect no change in S&P's stable AAA rating of Luxembourg.

Yield and Spread Forecast Commentary

Amitabh Arora

US: The yield curve continued the flattening trend seen since the beginning of 2014, with the 30y rallying more than 10bps in the month of July, and close to 20bp since our last publication. The 10y rallied by about 5bp and the 5y sold off by the same since the start of July. Geopolitical tensions, as well as the drop in the jobless rate to 6.1%, probably contributed to the flattening. However, the rally in the 30y seems tied to the larger flattening trend that we've seen in 2014. Last month we lowered our forecasts based on a lower expectation for the terminal fed funds rate. It appears that a lower terminal fed funds rate is being priced in more broadly in the market.

Alessandro Tentori

Core Europe: Together with geopolitical risk factors, markets' anticipation of some sort of asset purchase plan by the ECB continues to support valuations across the AAA/AA space. Bund yields look a bit stretched compared to fundamentals as suggested by Citi's surprise indicator, while positioning is not anymore a dominant factor as it was in Q1. The front-end of the curve will increasingly reflect some uncertainty about liquidity conditions as we move closer to the first TLTRO, but only significant liquidity shocks could derail ECB's forward-guided Eonia. Further out, we have lowered our Bund forecast to 1.25% on average over Q3, while maintaining a rising yield profile as implied by the sensitivity to the UST market in Q4 and in 2015. Quasi-core and soft-core spreads should also benefit from the overall AAA/AA strength as global investors are left with limited options in terms in yield enhancement.

Peter Goves

EMU Periphery: What is striking about the EMU periphery at present is its relative resilience and i*nsensitivity* to wider event risk and geopolitical concerns. In our view, this is yet again symptomatic of the ultra-loose (and loosening) monetary policy that continues to dampen the effects of wider event risk which in other circumstances might have more dramatic market repercussions. We therefore continue to expect spread compression, but given the relative economic prospects of Italy vs Spain, we now expect a degree of outperformance of Bonos vs BTPS going into Q4. Specifically, we expect 10yr BTPs to Bunds to average 120bp and Bonos to average 110bp. We also expect Portugal to resume its spread tightening trend given recent underperformance inspired by banking concerns. We have gone long 6yr Portugal vs Spain as detailed in our *European Rates Weekly 24th July*.

Jamie Searle

UK: The MPC continue to prepare the market for a hiking cycle sooner rather than later. We expect the first rate hike in Nov-14 compared with current market pricing of Feb-15. The MPC predict that the hiking cycle will be gradual and limited. However, there is no pre-commitment and we expect the recovery will justify a faster hiking cycle than currently priced. This makes us relatively bearish on the front-end and we continue to expect the 2s5s and 2s10s curve to flatten sharply in coming quarters. The August *Inflation Report* could be the trigger for a front-end led sell-off, in our view, and could also propel further underperformance of gilts on a cross-market basis, especially vs Bunds.

Takeki Fukushima

Japan: The seasonal rally in July was stronger than anticipated due to decline in volatility and strong front to middle sector, where 2y rates firmly fixed sub-7bp and 5y rates broke below 15bp. Thanks to the steep curve beyond 5yr, the total return at 10y remained just below 1.5% and that of 20y just below 3.0% despite the recent decline in yields. The halving in volatility compared to the beginning of the year has made the risk/reward balance of JGBs quite attractive in our view (or the cost of shorts quite painful). Given that the GPIF announcement has been pushed back in autumn and recent data are not as solid as the BoJ expected, we are very likely to see a seasonal summer rally during the O-bon holiday season in August just like in the past 10 consecutive years.

Figure 44. Interest Rate and Bond Market Forecasts as of 30 July 2014

		Quarterly Average (Unless Specified)					
	Current	3Q 14F	4Q 14F	1Q 15F	2Q 15F	3Q 15F	4Q 15F
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.75	1.00
3-Month Libor	0.23	0.23	0.23	0.35	0.65	0.85	1.05
2 Year Treasury Yield	0.49	0.60	0.85	1.10	1.30	1.55	1.75
5 Year Treasury Yield	1.69	1.80	2.10	2.35	2.45	2.60	2.70
10 Year Treasury Yield	2.47	2.60	2.85	3.00	3.05	3.15	3.20
30 Year Treasury Yield	3.24	3.30	3.40	3.50	3.55	3.55	3.60
2-10 Year Treasury Curve	198	200	200	190	175	160	145
2 Year Swap Spread (Swap Less Govt), bp	21.0	19.5	16.5	15.0	15.0	15.0	15.0
10 Year Swap Spread (Swap Less Govt), bp	12.0	13.5	15.0	15.0	15.0	15.0	15.0
30 Year Swap Spread (Swap Less Govt), bp	-3	-4	-5	-5	-5	-5	-5
30 Year Mortgage Yield	4.17	4.30	4.60	4.80	4.90	5.05	5.15
10 Year Breakeven Inflation	226	230	230	235	235	235	235
Euro Area							
Policy Rate End Quarter	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Overnight Rate (EONIA)	0.04	0.05	0.00	0.00	0.00	0.00	0.00
3-Month (EURIBOR)	0.24	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Schatz Yield	0.03	0.05	0.05	0.05	0.05	0.05	0.05
5 Year Bobl Yield	0.30	0.40	0.50	0.50	0.50	0.60	0.60
10 Year Bund Yield	1.12	1.25	1.45	1.50	1.55	1.55	1.60
30 Year Bund Yield	2.01	2.15	2.20	2.35	2.45	2.55	2.55
2-10 Year Bund Curve	109	120	140	145	150	150	155
10 Year BTP-Bund Spread	152	140	120	120	120	120	120
10 Year Bono-Bund Spread	134	140	110	110	110	110	110
2 Year BTP-Schatz Spread	33	40	40	40	40	40	40
2 Year Bono Schatz Spread	22	40	35	35	35	35	35
10 Year OAT-Bund Spread	39	50	40	40	40	40	40
10 Year Swap Spread (Swap Less Govt.), bp	21	20	20	20	20	20	20
10 Year Breakeven Inflation	137	135	140	145	145	150	150
5y5y Implied Vol	73	73	73	72	72	71	70
Japan							
Policy Rate End Quarter	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.13	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Treasury Yield	0.08	0.10	0.10	0.10	0.10	0.10	0.10
5 Year Treasury Yield	0.15	0.15	0.15	0.20	0.20	0.25	0.20
10 Year Treasury Yield	0.53	0.55	0.50	0.70	0.80	0.85	0.75
30 Year Treasury Yield	1.67	1.70	1.65	1.75	1.80	1.80	1.75
2-10 Year Treasury Curve	45	45	40	60	70	75	65
2 Year Swap Spread (Swap Less Govt.), bp	8	8	8	8	11	12	10
10 Year Swap Spread (Swap Less Govt.), bp	14	13	10	15	15	18	15
10 Year Breakeven Inflation	123	110	95	105	110	110	105
UK							
Policy Rate End Quarter	0.50	0.50	0.75	1.25	1.50	2.00	2.50
3-Month Libor	0.56	0.55	1.00	1.55	1.70	2.10	2.55
2 Year Treasury Yield	0.84	1.15	1.60	1.85	2.10	2.40	2.60
5 Year Treasury Yield	1.96	2.15	2.45	2.60	2.70	2.85	2.90
10 Year Treasury Yield	2.54	2.75	3.05	3.15	3.15	3.20	3.25
30 Year Treasury Yield	3.28	3.40	3.55	3.60	3.60	3.60	3.60
2-10 Year Treasury Curve	171	160	145	130	105	80	65
10 Year Swap Spread (Swap Less Govt.), bp	12	13	15	20	20	25	25
10 Year Breakeven Inflation	297	310	325	335	335	340	340
Australia							
Policy Rate End Quarter	2.50	2.50	2.50	2.50	2.75	3.00	3.25
3-Month Libor	2.65	2.60	2.75	2.80	3.10	3.25	3.50
2 Year Treasury Yield	2.57	2.60	2.50	2.50	2.85	3.40	3.85
5 Year Treasury Yield	2.98	3.10	3.35	3.70	4.05	4.40	4.85
10 Year Treasury Yield	3.47	3.55	3.85	4.00	4.20	4.45	4.65
2-10 Year Treasury Curve	90	95	135	150	135	105	80
10 Year Swap Spread (Swap Less Govt.), bp	39	35	40	40	45	45	50

Source: Citi Research

Commodities Market Outlook

Aakash Doshi

Edward L Morse

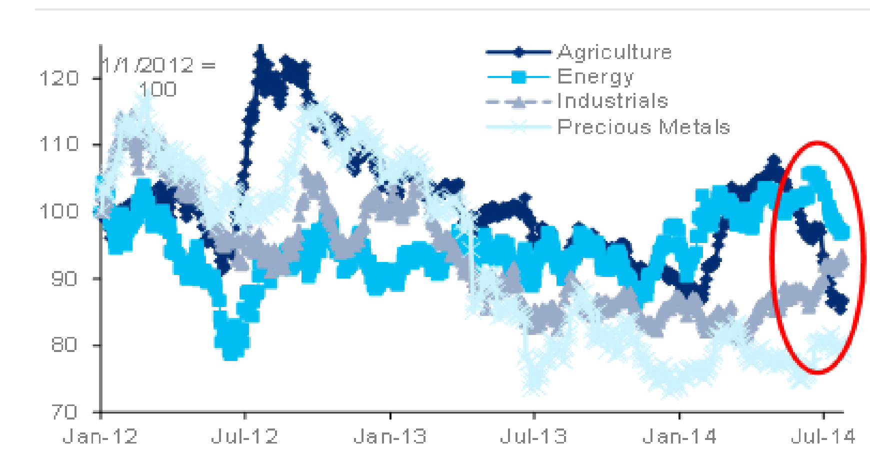
Commodities' stellar performance this year was persistent in 1H, raising questions about how long it could last. In many ways the year has been a return to normal, with commodities providing a strong portfolio diversifier for investors as the asset class moved away from its once tight negative correlation to the US dollar and tight risk on/risk off correlation to US and global stock markets.

But as in equities, there have been individual commodities that have seen underlying values rise significantly, (precious metals, the PGM group, some softs) while others have seen values plummet (especially some industrial commodities and all the grains), with the winners edging out the losers by a strong margin, but one that appears to be based on questionable fundamentals. Underlying strong group performance has been strong group divergence, providing relative value investment opportunities.

Figure 45. US Dollar Index versus DJ-UBS (BCOM) Rolling 1Y Correlation of Daily Total Returns

Source: Citi Research

Figure 46. Commodity Sector Performance (Indexed to 100, 2012—Present)



Sources: Bloomberg and Citi Research

High performance anxiety therefore has become pervasive, with one quarter's winner becoming another's loser. First quarter outperformance was concentrated in two subclasses: grains and energy, the former responding to shortages resulting from earlier year's drought and heat, the latter responding to shortages triggered by cold weather in North America, tail risk events which more often than not bring rewards to long-only investors. But in Q2 there was role reversal, with good weather and a long sowing season rapidly changing fortunes for the grains.

Positive momentum should continue across the commodity complex in 2H, but picking winners and losers might require a combination of facile understanding of market drivers along with tail risk luck. Citi is strongly bullish on the PGM group, based on market fundamentals and ironically post the South African strikes; and while wary of recent rallies, believe that the metals complex should by year-end ride the growth wave triggered by recent stimuli offered in China. We're especially positive on both platinum and palladium and both, but particularly the latter, in the spread against gold. We are especially positive toward copper and nickel, and negative iron ore driven by Asia-specific supply and demand factors.

Oil and natural gas have moved with the weather and with politics, providing tail risk insurance and opportunity alike. Energy tail risks can be positive or negative, but rarely neutral. They can be supportive of seasonality or, as his recently been the

case, they can counteract normal seasonality factors. Q2, normally seasonally weak as refinery runs and demand fall off, saw spikes in oil flat price and the forward curve based on events in Ukraine and Iraq. Meanwhile a normally strong Q3 is seeing stalemate in Iraq and a potential return of Libyan crude ushering in weaker prices.

While grains look weak for the year ahead, the ag sector also depicts strong divergence. Tropical and semitropical "California crops" look very strong as well as coffee and cocoa providing some modest strength against declining prices across the entire grains complex.

Grains and Food Prices

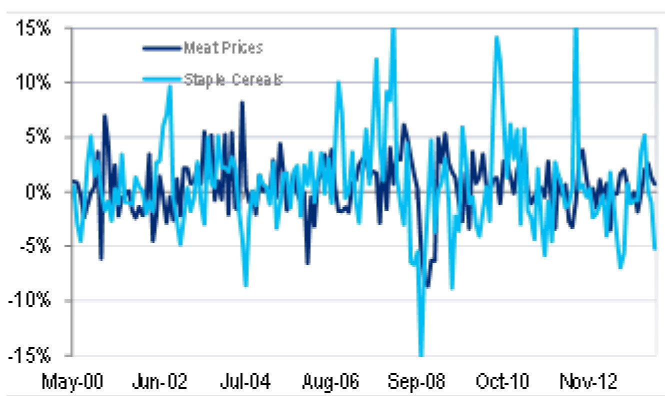
Adverse weather conditions in Latin America and California, geopolitical heat in the Black Sea grain belt, piglet disease, low calf/cattle inventories and robust US export volumes boosted agriculture prices across the board through April of this year. But early 1H'14 price strength ended in June with a whimper for many food-related commodities, especially the benchmark cereals. Physical inventories and planted acreage data have surprised to the upside in recent months while grain growing conditions have been ideal across the US farm-belt and China this summer, boosting the outlook for record crop harvests and yields. These factors have begun to weigh on maize, soy and wheat prices during the past ten-to-twelve weeks. For context, during the first four months of 2014, these staple cereals rallied 15-20% and outperformed all commodity complexes (and for that matter, all other key asset markets). Since May, the same markets have sold-off 20-25% and underperformed all commodity complexes (and for that matter, all other key asset markets).

International food costs declined in June for the third straight month and are biased to fall further during July. The FAO Food Price Index eased 3.8 points m/m and 2.8% y/y to 205.95 — a high level by historical standards but representing ongoing relief for OECD and particularly EM consumers following violent price spikes in 1Q and early 2Q for grains, dairy and related products. World food prices should continue to grind lower though the end of 2014 albeit at a more moderate pace. There is currently a tug-of-war going on between a bearish grains outlook and a more constructive livestock price environment. Changes in food-CPI could thus diverge, favoring sharper declines in less protein-intensive agriculture economies in Africa and Asia vis-à-vis meat consuming markets in the West — though it is worth noting that food-CPI is a much smaller portion of developed market consumer baskets (i.e. US, UK, EMU) versus emerging market counterparts in any case.

Figure 47. FAO World Food Price Index

Sources: FAO, Citi Research

Figure 48. Global Food Price Inflation



Sources: UN, Citi Research

The dichotomy of surplus staple grains supply and tighter livestock inventories has interesting implications for food inflation prospects. And the United States is an example worth highlighting (due to data availability and transparency at the farm-level). Cattle on feed and hogs—adversely impacted by the West Coast drought and PED disease—look to be declining during the 2013/14 and 2014/15 cycles. Meanwhile, only minor US grain consuming animal unit (GCAU) index gains are expected for broilers and turkeys. While feeding rates are likely to be seasonally stronger in 3Q, the growth in corn and soybean supplies should far exceed any rebound in calf/cattle/hogs inventory in the coming quarters. This places downside risk to feed demand for new-crop grains but also alludes to a potentially smaller drop in meat prices vis-à-vis the decline in cereal costs.

In short: shrinking usage of feed grains is bearish cereal prices but low beef stocks and smaller hog availabilities can support relatively higher red meat prices. This is quite a reversal for agriculture markets that from 2010-1H'13 were mired in a period of low grain stocks (in the US and abroad), grain export bans (i.e. Russia) and adverse weather conditions (i.e. the 2012 US drought).

Metals and Bulks

The start of the second half of 2014 has seen positive price momentum across the metals complex. LME copper prices climbed strongly into early July, trading up to $7,212/MT on July 7th, defying uncertainty surrounding the outcome of the Qingdao port probe. However, softer summer fundamentals point to lower short term prices, while the ebbing attraction for Western banks to enter new collateralized financing deals given the Qingdao events is also a risk. Whilst we don't believe metal that was being financed will be shipped from China in any significant volume, but it is possible that reduced financing activity could extend the softening of Chinese refined copper imports that has been seen since June. The dramatic deceleration in Chinese housing starts, down 22% y/y as of May, had prompted market concerns over a potentially negative impact on Chinese refined copper consumption. However, we expect energy infrastructure spending to have their greatest impact on Chinese copper consumption later towards the end of Q3 and into Q4, limiting any potential short-term downside. Whilst investor interest for copper appears to remain cautious, the same cannot be said for aluminium, where CTA activity has driven LME prices to one and a half year highs in July. However, we see little in the way of real fundamental support for such moves, particularly in the light of new capacity ramp ups (China and the Middle East) plus capacity restarts (China) points to an unsustainable rally.

The current CTA driven zinc rally also looks unsustainable in the short term, with continued sluggish growth in galvanised steel sheet production in China y-t-d vs. 2012 and subdued Chinese construction not supportive of a bullish demand picture despite clear signs of improvements in both US and Europe. As with aluminium, we believe zinc draws from exchange warehouses are driven by growing demand to finance zinc in non-LME warehouses in order to take advantage of significantly lower rental rates. An element of physical premium support is also, we believe, an influence on zinc draw trends, as traders remove material to create a perception of a tightening market.

In other markets, the impact of the Indonesian export ban is unfolding much as we had anticipated, and if anything developments have progressed more rapidly than forecast. The Indonesian ore ban policy now appears to be attracting investment interest, but given full permitting appears to take up to 18 months, and build time a minimum of 2 years, then we would not expect to see large scale Indonesian NPI production until 2017/18 at the earliest. Perhaps the biggest short-term stumbling

block to confidence in the nickel story is the high level of LME stocks, currently over 310,000 MT. LME grade material is very much the metal of last resort for stainless steel mills. In 2013, we estimate that LME grade metal accounted for 38% of total nickel unit availability when both scrap and off-grade primary metal units are taken into account. Thus real changes in underlying nickel demand can take some time to feed through to clear physical changes in the LME market. We do not expect to see LME inventory draws until well into Q4, suggest significant further upside moves in nickel prices will not occur until well into H2.

In the precious space, COMEX gold prices have made a sustained move above the $1,300/oz. level since mid-June, appearing to defy bearish consensus Q3 forecasts prompted by clear signs of macro-economic improvement in the world's economic super powers, the US and China. Geopolitical tensions in Russia/Ukraine, Iraq, Libya, Syria and elsewhere in MENA and Africa have elevated gold's safe-haven status while a sluggish US dollar and a stubborn low-rate environment (which the FOMC appears biased to maintain) have enhanced investor appeal. We expect gold prices to remain in a $1,290/oz. -$1,350/oz. range in H2, on inflation concerns and geopolitical issues, plus stronger physical market activity from retail investors, ETF flows and Central Banks providing support.

We expect bulk commodity prices to remain under pressure in August, but then to improve from September through year-end. The most significant improvement is expected from thermal coal, with a large increase in Indian imports expected post-Monsoon given current exceptionally low coal inventories and expected weaker hydro production and stronger agricultural pump demand for electricity. Improved Chinese industrial activity is also expected to see a recovery in Chinese imports. Coking coal prices are also expected to improve somewhat on stronger Chinese steel production, driven by the infrastructure and machinery sectors (35% of demand), while real estate demand is expected to remain relatively flat over the coming months. Iron ore prices are expected to remain range-bound between $90 and $110, trading in the lower end of the range in August before improving to average $100 in Q4 thanks to better Chinese steel demand, more stable exports out of Australia, and pressure on Chinese iron ore production.

Energy

In North America, low inventories only boosted prices temporarily earlier this year but could a turning point be coming? Summer weather has been mild, keeping absolute demand subdued, despite weather-normalized demand looking robust: low Northeast prices are keeping gas burn high and low coal stocks should cause gas burn to stay elevated. The drought would have boosted west region gas demand if not for robust solar generation. Production has been strong but very low prices in the $2 range in the Northeast could slow or even reverse production growth, similar to last year between Aug and Oct. Further, the gas market could turn from bearish to more neutral based only on a couple of key assumptions on (1) 2015 production (some think production will be robust) and (2) exports to Mexico (some think exports will be limited).

Little relief is expected for European gas prices as inventories remain high. But with current European prices in the $6 range, some coal-to-gas switching is able to absorb a portion of the supply glut. Winter gas supply risk is partly what's providing support to the forward curve further out. The European gas market might well be underpricing the impact of continued suspension of flows from Russia to Europe via Ukraine. For Global LNG, with rather lackluster buying interest in Asia and low European prices dragging Asian prices lower through the East-West arbitrage, Asian LNG prices (JKM) are now hovering in the $10 range, a far cry from the $19

level in winter. Citi expects UK's NBP and Asia's JKM to remain low until late Q3'14 possibly, when winter supply concerns reemerge.

Over recent weeks, there has been a marked divergence in the two major benchmarks (Brent and WTI) for global crude markets. On one hand, the North Sea market, despite the recent stabilisation, is looking in plentiful supply with near dated Brent spreads at 30-40c contango while on the other you have a tight US crude market. The last WTI prompt spread expired at $1.65/bbl and the current spread is trading north of $1/bbl. The screaming tightness that many expected in Q3 has yet to materialize as crude in the Atlantic Basin looks in good supply, particularly in West Africa where Nigerian barrels are struggling to clear. The North Sea physical market came under heavy pressure at the start of July with the lure of Libyan barrels returning, cooling Iraqi worries and generally weak refinery demand. This helped trigger a sell-off in financial oil markets as open Interest on ICE Brent has fallen by some 250-k lots over the past 2 reporting weeks following a significant liquidation of long spread positions. Yet the Brent Flat price continues to be a barometer for global geopolitics and the general state of affairs across the MENA region and Russia/Ukraine is expected to remain supportive and keep Brent in the $106-112/bbl range it has become so accustomed too. A firming physical market is likely needed to strengthen the Brent curve, led by strong refinery demand, but outside of the sheltered centres of North America, the FSU and the Mid-East, this remains thin.

Conversely across the Atlantic, crude markets are looking a lot stronger and the tight US Gulf Coast (USGC) market is expected to remain as such, especially if PADD II and PADD III refiners keep running at the record high run rates that they have been doing over recent weeks. These high crude runs helped push LLS-Brent to a premium for the first time since January. Cushing inventories are now just 19-m bbls and tank bottoms at the Oklahoma hub are edging ever closer. With tightness at Cushing and on the USGC as PADD III crude stocks drawdown (doing so even faster on a demand cover basis), there is room for WTI to strengthen further to attract barrels and resultantly the financial WTI-Brent spread could narrow further. Cushing could start to build as runs drop-off in the fall and Pony Express comes online, but until then a strong US crude market should remain.

Figure 49. Commodities Price Outlook

		Point Prices																				
		0-3M	6-12M		Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014E	Q4 2014E	Q1 2015E	Q2 2015E	Q3 2015E	Q4 2015E	2012	2013	2014E	2015E	2016E	2017E	2018E
Energy				**5Y Cyclical**																	
NYMEX WTI	USD/bbl	103.0	103.0	81.0	108.0	97.6	99.0	103.0	107.0	99.0	101.0	96.0	104.0	97.0	94.1	98.0	102.0	99.5	86.0	82.0	85.0
ICE Brent	USD/bbl	110.0	110.0	85.0	112.0	109.3	107.8	110.0	111.0	108.0	106.0	103.0	108.0	103.0	111.7	108.7	109.0	105.0	95.0	90.0	90.0
Henry Hub Natural Gas	USD/MMBtu	4.55	4.53	5.50	3.55	3.85	5.06	4.58	4.55	4.55	4.50	4.40	4.50	4.60	2.75	3.73	4.70	4.50	4.90	4.90	5.50
Base Metals				**LT Price**																	
LME Aluminum	USD/MT	1,885	1,900	2,200	1,827	1,815	1,752	1,836	1,870	1,900	1,900	1,920	1,950	1,970	2,049	1,888	1,840	1,935	2,000	2,100	2,200
LME Copper	USD/MT	7,000	7,150	6,200	7,096	7,161	7,005	6,758	6,950	7,050	7,150	7,100	7,200	7,500	7,945	7,352	6,940	7,240	7,800	8,200	8,400
LME Lead	USD/MT	2,260	2,350	2,200	2,116	2,134	2,127	2,120	2,200	2,320	2,350	2,100	2,300	2,450	2,072	2,158	2,190	2,300	2,400	2,450	2,360
LME Nickel	USD/MT	22,000	24,000	21,000	13,996	13,980	14,693	18,512	19,500	21,500	22,500	24,000	24,000	26,000	17,592	15,105	18,550	24,125	26,500	26,000	25,000
LME Tin	USD/MT	23,750	24,500	20,000	21,284	22,951	22,622	23,125	23,500	24,000	25,000	24,000	23,000	25,000	21,108	22,340	23,310	24,250	25,000	24,000	23,000
LME Zinc	USD/MT	2,125	2,200	2,100	1,896	1,932	2,027	2,079	2,100	2,150	2,200	2,225	2,250	2,300	1,963	1,940	2,090	2,245	2,300	2,400	2,320
Precious Metals				**LT Price**																	
COMEX Gold	USD/T. oz	1,310	1,360	1,050	1,330	1,274	1,292	1,290	1,300	1,320	1,340	1,350	1,360	1,400	1,669	1,416	1,300	1,365	1,380	1,400	1,420
Silver	USD/T. oz	20.6	21.0	16.5	21.5	20.8	20.5	19.7	20.5	20.7	20.9	21.0	21.3	21.5	31.2	24.0	20.3	21.2	22.0	23.0	23.1
Platinum	USD/T. oz	1,520	1,560	1,763	1,456	1,397	1,429	1,448	1,500	1,525	1,525	1,565	1,640	1,675	1,552	1,490	1,475	1,600	1,710	1,800	1,960
Palladium	USD/T. oz	890	920	780	729	725	745	816	875	900	910	920	930	940	645	728	835	925	935	980	980
Bulk Commodities				**5Y Cyclical**																	
Hard Coking Coal (Spot)	USD/MT	120	130	180	143	142	122	113	115	130	138	135	140	145	191	148	120	140	150	160	180
Thermal Coal Asia (NEWC)	USD/MT	72	80	90	77	82	79	73	72	80	82	78	75	80	94	84	76	79	85	90	100
Iron Ore Spot (TSI)	USD/MT	95	100	81	133	135	120	103	97	100	98	92	85	85	128	135	105	90	80	83	85
Agriculture																					
CBOT Corn	USd/bu	350	390	N/A	512	430	450	480	400	370	420	450	505	505	695	578	425	470	515	N/A	N/A
CBOT Wheat	USd/bu	550	500	N/A	650	655	616	652	550	510	575	600	600	600	750	684	580	595	615	N/A	N/A
CBOT Soybeans	USd/bu	1,350	1,000	N/A	1,405	1,304	1,355	1,470	1,325	1,050	1,050	1,050	1,000	1,100	1,465	1,406	1,300	1,050	1,075	N/A	N/A
CBOT Rice	USD/cwt	14.5	14.0	N/A	15.6	15.5	15.5	15.1	14.3	14.0	14.0	14.0	14.0	14.0	14.9	15.5	14.7	14.0	N/A	N/A	N/A
NYB-ICE Cotton	USd/lb	70.0	65.0	N/A	85.6	80.3	88.0	89.0	75.0	68.0	70.0	70.0	70.0	70.0	80.0	83.3	80.0	70.0	N/A	N/A	N/A
Sugar#11	USd/lb	18.0	19.0	N/A	16.7	17.7	16.5	17.3	18.0	18.0	18.5	18.5	18.5	18.5	21.6	17.5	17.5	18.5	N/A	N/A	N/A
ICE Coffee	USd/lb	180	200	N/A	118	110	152	185	200	200	225	225	225	225	175	126	185	225	N/A	N/A	N/A
ICE Cocoa	USD/MT	3,000	3,200	N/A	2,420	2,706	2,880	3,005	3,200	3,200	3,300	3,300	3,400	3,400	2,348	2,405	3,100	3,350	N/A	N/A	N/A

Sources: Citi Research, *subject to revision; published on 13 July 2014 "Low Vol; High Performance Anxiety."

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Appendix A-1

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