1 August 2014 │ 16 pages

Developed Markets
Western Europe

Euro Economics Weekly

How Might Russia Developments Affect The Eurozone Economy?

- The EU has imposed a further set of sanctions on Russia against the backdrop of an already weakening Russian economy. In our view, on current trends, the developments in Russia could shave a few tenths off Eurozone growth in 2014 and 2015, and constitute a downside risk to our forecasts. Currently, the trade channel is the most relevant — with Eurozone exports to Russia falling by around 15%YY — but sentiment and investment prospects are likely to suffer too. The exposure to such shocks varies quite widely across Eurozone countries, with the Baltic and Eastern European countries as well as Finland most exposed, but Germany's exposure is also above the Eurozone average.
- Much more broad-based sanctions, a dramatic weakening of the Russian economy and in particular disruptions to the Russian supply of commodities (notably gas) to the Eurozone potentially could have a much larger impact on Eurozone growth. But in the absence of a very large adverse shock it is not clear how, and in fact if, the ECB will react to these developments. The trajectory of Eurozone inflation will remain the key driver for ECB decisions, in our view, and we continue to expect that continued inflation undershoots will induce the ECB to announce a QE programme in Q4 (our base case) or early next year.

Ebrahim Rahbari
+44-20-7986-6522
ebrahim.rahbari@citi.com

Guillaume Menuet
+44-20-7986-1314
guillaume.menuet@citi.com

Giada Giani
+44-20-7986-3281
giada.giani@citi.com

Michael Saunders
+44-20-7986-3299
michael.saunders@citi.com

Antonio Montilla
+44-20-7986-3282
antonio.montilla@citi.com

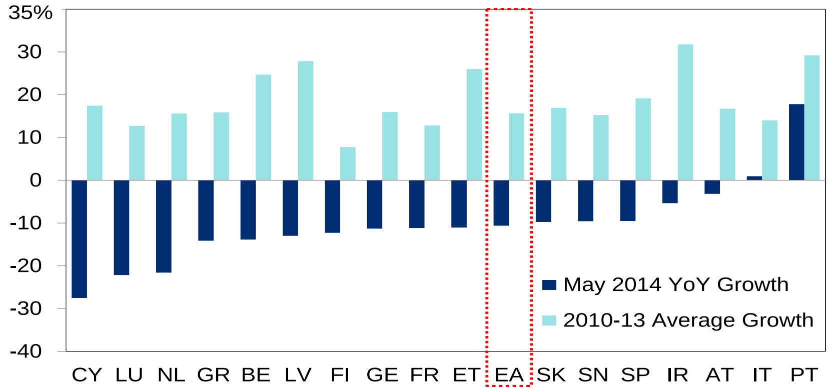
Ann O'Kelly
+44-20-7986-3297
ann.okelly@citi.com

Figure 1. Citi Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-Yr Gilt Bund
4Q 14	1.33	0.15	1.45	0.77	0.75	162
2Q 15	1.34	0.15	1.55	0.77	1.50	162

Source: Citi Research

Figure 2. Euro Area — Growth of Goods Exports to Russia in May 2014 (12M Sum, %YY) vs 2010-13 Average (12M Sum, %pa)



Sources: Eurostat and Citi Research

Click to play
Ebrahim Rahbari

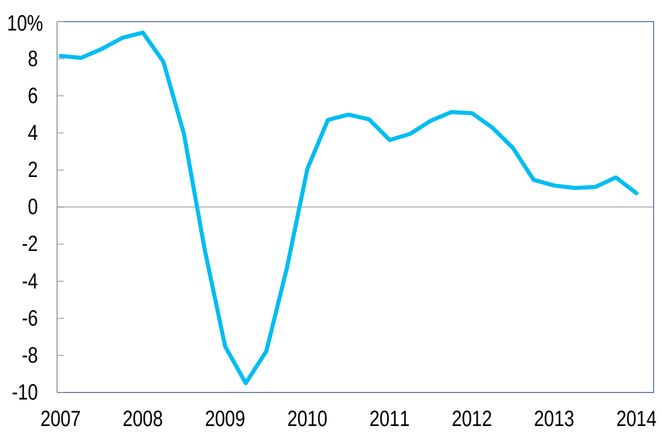
See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Certain products (not inconsistent with the author's published research) are available only on Citi's portals.

Russia and Eurozone Growth

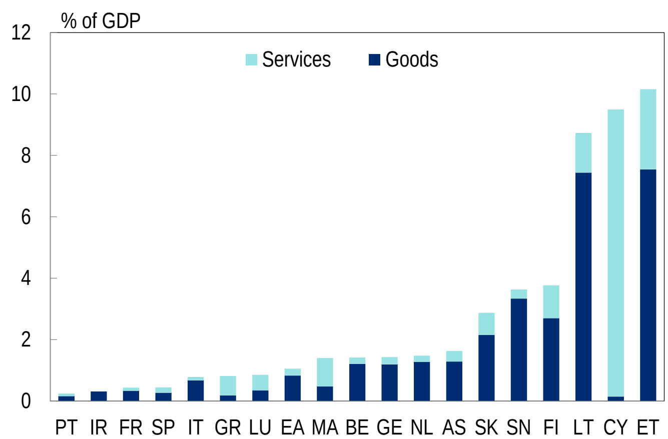
The Russian economy has weakened (see Figure 3) and the EU on Tuesday (29 July) announced a new set of sanctions on Russia. As Russia is a major trading partner of the Eurozone, these developments are adding to concerns about the Eurozone growth outlook, which had already been fuelled by the fact that Eurozone economic data has mostly been weaker-than-expected this year. In this publication, we discuss the potential impact of adverse developments in Russia on the Eurozone economy and potential reactions by the ECB.

Figure 3. Russia — Real GDP Growth (%YY), 2007-2014 Q1



Sources: Russian Federal State Statistics Service and Citi Research

Figure 4. Euro Area Countries — Exports of Goods and Services to Russia (% of GDP), 2013



Note: Services exports are for 2012.

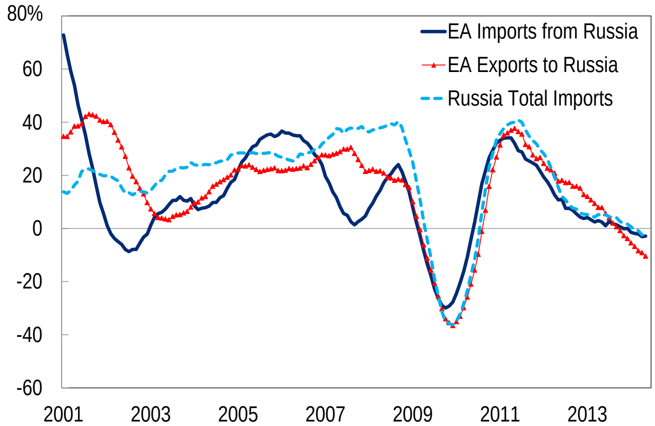
Sources: Eurostat, IMF and Citi Research

The Impact of Russian developments on the Eurozone

The impact of developments in Russia on the Eurozone economy will depend on three main drivers: the nature of EU sanctions imposed, the potential retaliatory measures imposed by Russia and the broader economic outlook in Russia. It is not straightforward to disentangle the effect of sanctions from broader economic developments. But what is clear is that the Russian economy had already been weakening (and in fact has mostly been weakening since 2009) before sanctions were imposed. In H1 2014, growth came in at 1.0%YY (after growth of 1.2% in 2013 and 3.5% in 2012) and consensus expectations for 2014 growth have weakened steadily over the past 12 months. Citi currently expects the Russian economy to grow by a mere 0.7% this year.

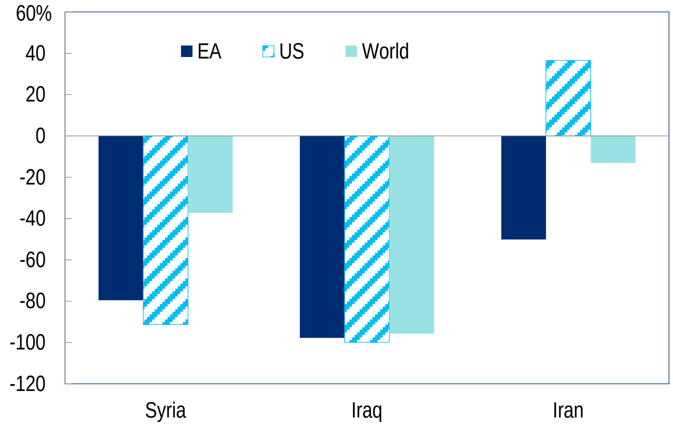
We highlight three major channels through which the Eurozone economy may be affected by Russia-related developments: first, exports to Russia may fall. Second, sentiment more broadly as well as investment intentions may be hit. And third, the Eurozone economy could be exposed to a rise in commodity prices or interruptions to the supply of Russian commodities, notably natural gas. Media reports suggest that the European Commission estimates that EU growth could be reduced by 0.3pp of GDP in 2014 and 0.4pp in 2015 by the sanctions imposed on Russia as well as some countermeasures potentially imposed by the Russian government. As a number of the EU countries with relatively higher exposure to Russia are not in the Eurozone, the impact on the Eurozone is potentially somewhat smaller, perhaps in the order of 0.2-0.3pp per year. These effects are only partly incorporated in our forecasts and therefore constitute a downside risk to our current forecasts for Eurozone growth of 1.1% in 2014 and 1.7% in 2015.

Figure 5. Euro Area and Russia — Euro Area Exports to Russia (%YY), Euro Area Imports from Russia (%YY) and Total Russian Imports (%YY), 2001-2014



Note: In Euros.
Sources: Eurostat, Russian Federal State Statistics Service, and Citi Research

Figure 6. Selected Countries — Two-Year Cumulative Fall in Goods Exports in USD to Syria, Iraq and Iran Post-Sanctions (%)



Note: The chosen start dates are 1991 for Iraq and 2011 for Iran and Syria. Note that significant US sanctions on Iran existed before 2011. All data are in USD terms.
Sources: IMF and Citi Research

Eurozone exports to Russia are falling sharply

Currently, the most visible impact on the Eurozone economy from developments in Russia has been the fall in Eurozone exports to Russia. In 2013, Russia was the euro area's 6th largest trading partner. Exports of goods and services to Russia amounted to €109bn in 2013, accounting for 2.4% of total exports or 1.1% of GDP in 2013. In Q1 2014, Eurozone exports of goods and services to Russia were 12% lower than a year before (and exports of goods were down 14%YY in May 2014, the latest available data), while total extra-EA exports by Eurozone countries were up 1%YY in Q1 (and 3% in May).

A 15% fall in Eurozone exports to Russia would, other things equal, shave around 0.15pp off Eurozone GDP. Since trade is measured on a gross basis, this calculation overstates the direct impact on EA GDP, but only slightly so, as OECD data suggest that domestic value-added of EA exports to Russia was around 90% in 2009, the latest available data. On the other hand, many Eurozone countries have sizable export exposure to other countries (e.g. in Eastern Europe) that in turn have sizable export exposure to Russia which would raise the impact of Russian import weakness on the Eurozone countries. Eurozone imports from Russia (which were 4.2% of total Eurozone imports in 2013) were down 8.5%YY in Q1 2014 (see Figure 5), leaving the euro area's bilateral trade balance (4Q sum) with Russia at -€42bn (0.4% of GDP) in Q1.

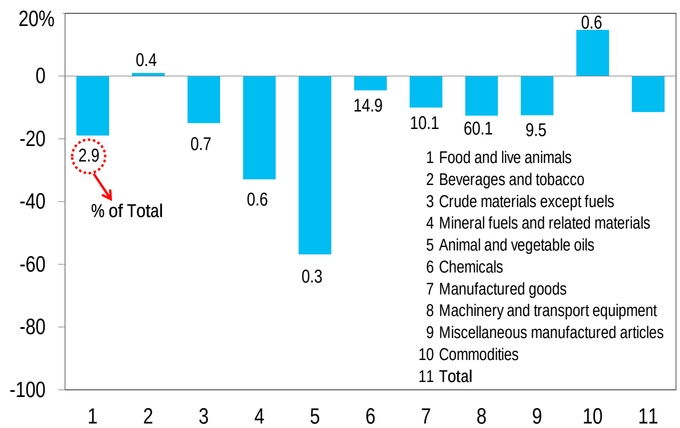
For some individual Eurozone countries, the export hit could be larger. For the Baltic countries and Finland, Russia is one of the top three trading partners and accounts for around or above 10% of total exports of goods (see Figure 4). Among the major Eurozone countries, Germany's exposure to Russia stands out, with Russia accounting for 3.3% of total exports or around 1.5% of GDP. Export growth to Russia has fallen in all countries recently and in most Eurozone countries the decline in exports of goods to Russia currently runs at a rate of 10-20%YY (See Figure 2 on the Front Page).

Figure 7. EU — Exports of Goods to Russia By Commodity Type (€bn and % of Total Exports to Russia), 2013

	% of Total Exports to Russia	% of Total Extra-EU Exports
Food and live animals	7.3	11.6
Beverages and tobacco	1.4	5.8
Crude materials except fuels	1.5	4.3
Mineral fuels and related materials	0.9	0.9
Animal and vegetable oils	0.4	9.3
Chemicals	16.8	7.4
Manufactured goods	10.5	6.3
Machinery and transport equipment	47.3	8.0
Miscellaneous manufactured articles	12.5	8.2
Commodities	0.9	1.1
Other	0.5	NA
Total	100	6.9

Sources: Eurostat and Citi Research

Figure 8. Germany — Exports of Goods to Russia By Commodity Type (%YY and % of Total German Exports to Russia), May 2014



Sources: Statistisches Bundesamt and Citi Research

As we noted above, the weakness of Eurozone exports to Russia should not be linked exclusively to diplomatic tensions. Thus, whereas Russian imports from the EU reported by the Russian Statistical Office fell by 4%YY in US dollar terms in Q1 2014, total imports fell by 6%YY (and imports from the US *rose* by 6% YY). But it is also clear that very broad-based sanctions can reduce trade dramatically. According to IMF DOTS data, world exports of goods to Syria fell by 25% in 2012 (in USD terms) and by 40% over two years after very broad-based sanctions were imposed on Syria in 2011 (total world exports were roughly flat in USD terms in 2011-13). US exports to Syria fell by more than 90% in 2012 and EU exports by roughly 80% between 2011 and 2013. US and EU exports to Iraq and indeed world exports to Iraq fell quickly by more than 90% after the imposition of very broad sanctions on Iraq in the early 1990s. Sanctions on Iran were imposed gradually over a number of years, but the intensifying sanctions in recent years have still led to a fall in EU exports to Iran by more than 50% in 2011-13.

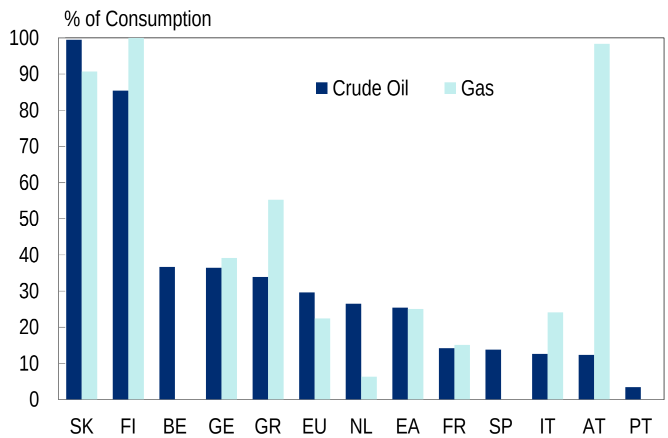
Trade in products that are directly subject to sanctions are of course most at risk. But in terms of the sectors that are in general most exposed to Russia, Eurostat notes that machinery and transport equipment accounted for almost 50% of EU exports to Russia in 2013, even though they only accounted for 8% of total extra-EU exports (see Figure 7). Chemicals exports accounted for 17% of exports to Russia, more than twice their share in total EU exports. To our knowledge, high-frequency data for EA or EU exports to Russia by commodity are not available. But for Germany, where the pattern of exports to Russia is broadly similar to that of the EU (even though German exports are even more tilted towards machinery and transport equipment and other manufactured goods), recent declines for the major export categories are fairly close to the overall decline (see Figure 8).

Total growth effects are not limited to the direct effects of the sanctions or the effects on exports alone. Sentiment can suffer, and recent months have arrested the previous general upward trend in Eurozone PMIs and the European Commission's Economic Economic Sentiment Index (ESI). In Q3 2013 to Q1 2014, the Eurozone PMI and the ESI improved by 0.5 or 1.3 points per month on average, respectively, whereas they have marginally fallen since, even before the new sanctions have taken effect. The difference in the PMI and ESI trends is consistent with roughly 0.2pp slower GDP growth on an annual basis. This change in trend cannot be blamed on developments in Russia and Ukraine alone, but Russia- and Ukraine-related tensions have been cited explicitly as factors in the weakness in the German

ifo, ZEW and PMI surveys in recent months by the survey providers (in fact, the ifo institute in Germany found in a special survey that businesses with links to Russia had underperformed its index this year). Business investment in particular can take a hit and the latest developments have been a factor in our recent downward revision of Eurozone growth in business investment to 3.0% in 2014 and 4.0% in 2015 (from 3.9% and 5.0% previously). The total impact on Eurozone growth will also depend on potential countermeasures imposed by the Russian government.

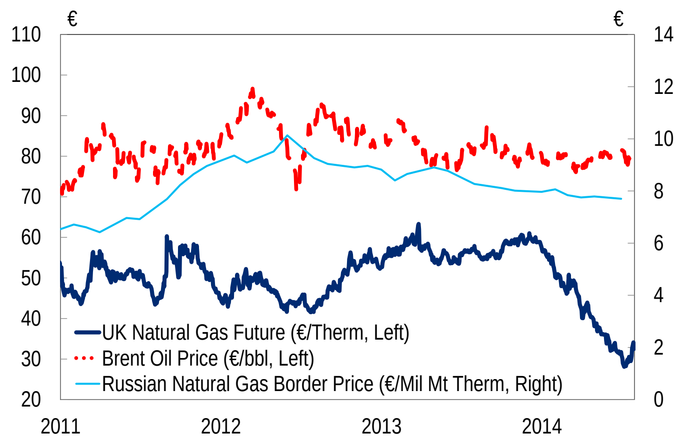
Exposure through gas and other commodities is key

Figure 9. Euro Area — Imports of Crude Oil and Gas from Russia (% of Consumption), 2012



Note: SK Slovakia. Sources: Eurostat and Citi Research

Figure 10. Euro Area — Prices of Crude Oil and Natural Gas, 2011-14



Sources: Bloomberg and Citi Research

Eurozone countries import sizable shares of their oil and gas needs from Russia. Thus, according to Eurostat data, in 2012 Russia accounted for 25% of Eurozone consumption and 26% of imports for both gas and oil (see Figure 9), in addition to sizable imports of coal and some electricity (for Finland and the Baltics). But reliance on Russian energy supply varies substantially across Eurozone countries. In Finland, Slovakia and the Baltic countries, Russia accounts for virtually all gas imports and consumption and a large share of crude oil imports. In a number of Western European countries, including the Netherlands, Spain and Portugal, reliance on Russian energy is small. Germany is somewhere in between, but still above the Eurozone average, with Russia accounting for almost 40% of its gas and crude oil consumption.

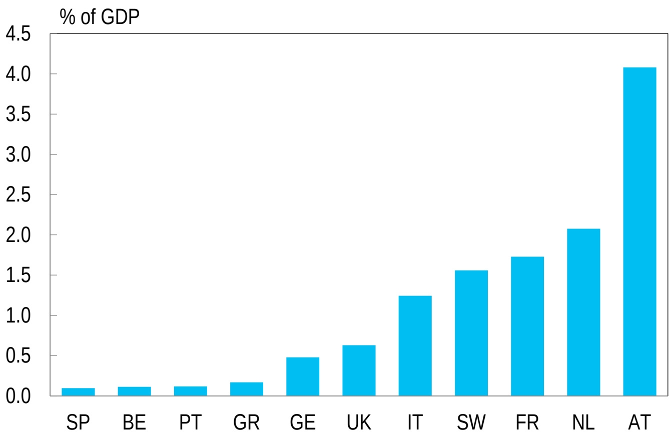
As long as the tensions lead to only modest increases in the prices of gas and/or oil, the impact on Eurozone growth from the commodity dimension is likely to be modest, for two reasons. First, Eurozone economies are mostly not very energy-intensive. Energy use (measured in tons of oil equivalents from the BP Statistical Yearbook) per unit of GDP are between one half and two thirds of US levels and even in the US they have halved over the last 20 years and fallen by three quarters since 1980 (energy prices have risen over this period, moderating the decline in energy expenditure). Second, oil and gas prices had been relatively low recently, so a modest rise would still leave them at moderate levels. Thus, spot natural gas prices in euros have risen by almost 25% over the last three weeks, but remain roughly 50% below the 2013 average (see Figure 10).

However, a major upside shock to energy prices and/or a longer disruption to actual gas or other energy supplies could substantially magnify the adverse impact of

developments in Russia on the Eurozone economy. This applies to gas in particular, due to the shortage of alternative supplies for gas. Even though the mild winter means that gas inventories are relatively high currently, supply interruptions can exhaust them within a couple of months, particularly as gas demand rises when the winter months arrive and can lead to price spikes even during normal weather conditions. In that context, one particular risk our commodities colleagues point out is that Russia could turn off its supplies of gas through Ukraine (roughly 50% of Russian gas supply to the EU is routed through Ukraine, with insufficient spare capacity in other supply routes to replace this).

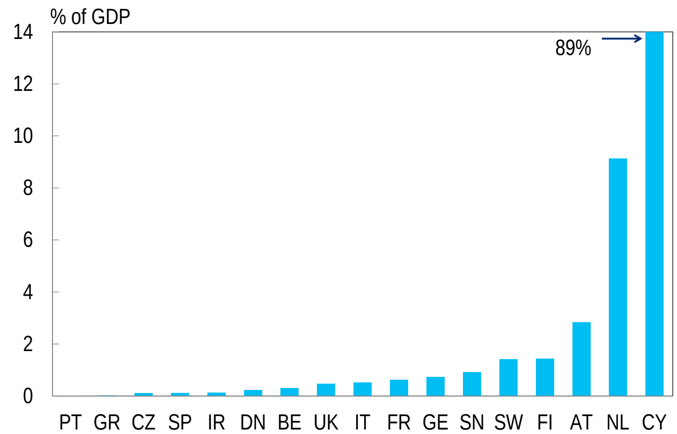
Financial exposures to Russia

Figure 11. Selected EU Countries — Banks' Claims on Russia and Ukraine (% of GDP), Q1 2014



Note: Based on BIS Consolidated Banking Statistics on an ultimate risk basis.
Sources: BIS and Citi Research

Figure 12. Selected EU Countries — FDI Assets in Russia and Ukraine (% of GDP), 2012



Note: Data refer to total outward direct investment positions of EA countries in Russia and Ukraine, measured as a percentage of the holding country's GDP.
Sources: IMF CDIS and Citi Research

Direct financial linkages with Russia are relatively limited in most Eurozone countries. Bank claims on Russia are relatively high in Austria (4.1% of GDP), the Netherlands (2.1%), France (1.7%), and Italy (1.2%), but they are less than 1% of GDP in Germany (see Figure 11). Measured outward FDI exposures to Russia and Ukraine are very large in Cyprus (89% of GDP, see Figure 12), Luxembourg (115% of GDP), the Netherlands (11% of GDP), Austria (3.4% of GDP) and Finland (1.5%), even though the exposure in a number of these countries (notably Cyprus, Luxembourg and the Netherlands) mainly reflects external business of globally operating firms headquartered in such countries which act as FDI entrepots (and therefore overstates the exposure on the local economy). As with trade, however, direct bilateral exposures are probably not a good guide to the overall level of exposures.

How will the ECB react?

In our view, it is highly likely that the ECB — perhaps even in concert with other major central banks around the world — would take further easing measures in the case of a major adverse shock, once it has occurred (or at least becomes likely and imminent enough to lead to major disruptions in the Eurozone economy and financial markets). But absent such a major shock, it is not clear, in our view, how and in fact if the ECB will react to the developments in Russia. On the one hand, as noted above, the developments in Russia are already weighing on the Eurozone growth outlook and risks of a larger adverse shock have risen. This may suggest

that the probabilities of further easing by the ECB may have risen, particularly if the weakness in demand ends up lowering the trajectory for inflation. But the key word is 'if'.

Other things equal, weakness in demand should weigh on inflation, which — given the already very subdued outlook for inflation (HICP inflation in the Eurozone reached a new cycle-low of 0.4%YY in July) — would call for additional easing. But it is possible that the ongoing developments will put some upward pressure on commodity prices, which could moderate, compensate for or in fact exceed the downward pressure of weaker demand on inflation, depending on the commodity price reaction (note that energy prices have a weight of 11% in the Eurozone HICP and gas prices alone of 2%, but long-term contracts, taxes and other levies as well as pricing decisions imply that retail gas and energy prices are only moderately correlated with spot commodity prices). In principle, monetary policy is meant to 'look through' the first-round effects of an adverse, temporary 'supply shock'. In practice, we suspect that, given how controversial a potential decision by the ECB to implement a broad-based asset purchase programme is, including buying hundreds of billions of government bonds, an uptick in inflation — even if driven by a (likely temporary) increase in commodity prices — could moderate pressure on the ECB to ease further in the near-term. In addition, in the light of the significant uncertainties regarding the evolution of external developments and the almost binary nature of a potential QE decision, the ECB may be inclined to in fact wait longer before considering further action.

Overall, we therefore maintain our assessment that the ECB is likely to wait at least a few months to analyse incoming data and that incoming inflation data will remain the best guide for likely future ECB decisions: that is, if inflation data continue to undershoot the ECB's expectations, as we expect, the ECB is likely to announce a broad-based asset purchase programme in Q4 or early 2015.

Figure 13. Key Economic Indicators (4 August – 8 August 2014)

During The Week		Forecast	Last
08:00	UK: Halifax House Prices, Jul		
Monday 4 August		**Forecast**	**Last**
08:00	Spain: Registered Unemployment, Jul	-103K MM	-123K MM
09:30	UK: Construction PMI, Jul		
09:30	Euro Area: Sentix Investor Confidence, Aug		
10:00	Euro Area: Industrial Producer Prices, Jun		
Tuesday 5 August		**Forecast**	**Last**
07:30	Sweden: PMI Services, Jul	55.4	54.6
09:00	Euro Area: Services PMI, Jul Final	54.4	52.8
	Composite PMI, Jul Final	54.0	52.8
09:30	UK: Services PMI, Jul	58.0	57.7
10:00	Euro Area: Retail Sales, Jun	0.2% MM, 1.3% YY	0.0% MM, 0.3% YY
Wednesday 6 August		**Forecast**	**Last**
07:00	Germany: Incoming Orders, Jun	0.2% MM, 1.3% YY	-1.7% MM, 5.8% YY
08:15	Switzerland: Consumer Prices, Jul		
09:00	Italy: Industrial Production, Jun	1.4% MM	-1.2% MM
09:30	UK: Industrial Production, Jun	0.6% MM, 1.5% YY	-0.7% MM, 2.2% YY
	Manufacturing Output, Jun	1.0% MM, 2.5% YY	-1.4% MM, 3.7% YY
10:00	Italy: GDP, 2Q Flash	0.1% QQ	-0.1% QQ
Thursday 7 August		**Forecast**	**Last**
06:45	Switzerland: SECO Consumer Confidence, Jul		
07:00	Germany: Industrial Production, Jun	2.1% MM, 1.3% YY	-1.8% MM, 1.2% YY
07:45	France: Trade Balance, Jun		
08:00	Spain: Industrial Production, Jun	3.2% YY	2.6% YY
08:30	Sweden: Average House Prices, Jul		
08:30	Netherlands: Consumer Prices, Jul		
09:00	Norway: Manufacturing Production, Jun	0.2% MM	-0.3% MM
10:00	Greece: Unemployment Rate, May		
11:00	Ireland: Consumer Prices, Jul		
12:00	UK: MPC Outcome		
12:45	Euro Area: ECB Outcome – Press Conference at 13:30		
Friday 8 August		**Forecast**	**Last**
06:45	Switzerland: Unemployment, Jul		
07:00	Germany: Trade Balance, Jun		
07:00	Sweden: PES Unemployment Rate, Jul	4.3%	4.1%
07:30	France: Bank of France Business Sentiment, Jul	98	97
07:45	France: Industrial Production, Jun	3.0% MM, 0.6% YY	-1.7% MM, -3.7% YY
	Manufacturing Production, Jun	2.5% MM, 0.3% YY	-2.3% MM, -3.0% YY
07:45	France: Budget Balance, Jun YTD		
08:30	Netherlands: Industrial Production, Jun		
08:30	Sweden: Services Production, Jun	0.4% MM	-1.0% MM
08:30	Sweden: Industrial Production, Jun	1.5% MM	-3.2% MM
09:00	Norway: Credit Indicator C2, Jun	5.6%	5.5%
09:30	UK: KPMG/REC Report on Jobs, Jul		
09:30	UK: Trade Balance, Jun	£-2.0 Billion	£-2.4 Billion
09:30	UK: Construction Output, Jun		
10:00	Greece: Industrial Production, Jun		

Sources: National statistical offices, central banks and Citi Research

Figure 14. Economic Indicators – Comments: Euro Area, Germany, France, Italy and Spain

Euro Area			
Aug 5	*Services PMI, Jul Final*	Forecast: 54.4	Prior: 52.8
09:00	*Composite PMI, Jul Final*	Forecast: 54.0	Prior: 52.8
London Time	We expect the preliminary readings to be confirmed, bringing the Composite PMI back to the April level of 54.0, mainly due to a 1.6 point jump in the Services PMI – the largest one-month jump since Dec 2012.		
Aug 5 09:00	*Retail Sales, Jun*	Forecast: 0.2% MM, 1.3% YY	Prior: 0.0% MM, 0.3% YY
London Time	Retail sales (at constant prices) have probably edged higher in June, after a flat reading in May and a drop of 0.2% MM in April. On the quarter, retail spending was probably up marginally relative to 1Q, we estimate by around 0.2%.		
Germany			
Aug 6 07:00	*Incoming Orders, Jun*	Forecast: 0.2% MM, 1.3% YY	Prior: -1.7% MM, 5.8% YY
London Time	After a larger-than-expected decline in industrial orders in May, we expect orders to rise modestly in June. This is partly as a payback to the weak April reading, but a range of indicators including order components of various sentiment surveys have continued to be on the weak side recently. With the small rise in June, orders in 2Q would be 0.6% QQ above the 1Q average.		
Aug 7 07:00	*Industrial Production incl Construction, Jun*	Forecast: 2.1% MM, 1.3% YY	Prior: -1.8% MM, 1.2% YY
London Time	We expect industrial production (including construction) in Germany to rise quite strongly in June. In May, IP fell quite sharply, which calls for a bit of a rebound in June in our view. But even with the increase in June, IP in June would be more than 1% below the 1Q average.		
France			
Aug 8 07:30	*Bank of France Business Sentiment, Jul*	Forecast: 98	Prior: 97
London Time	Although production forecasts have been increasing in the past couple of surveys, we doubt that the Bank of France business sentiment indicator will improve by much more than one point to 98 in July (-0.2sd). The BdF survey is expected to remain slightly lower than its INSEE equivalent, even if both suggest very little impetus in economic activity in the second quarter, as illustrated by manufacturing capacity utilisation figures being essentially static through the first half of 2014. A rebound in employment expectations remains some distance away, in our view.		
Aug 8	*Industrial Production, Jun*	Forecast: 3.0% MM, 0.6% YY	Prior: -1.7% MM, -3.7% YY
07:45	*Manufacturing Output, Jun*	Forecast: 2.5% MM, 0.3% YY	Prior: -2.3% MM, -3.0% YY
London Time	We look for industrial production (IP) to rebound sharply in June after an abnormally weak May, when no fewer than three Thursdays were non-work days, likely prompting many firms to shut their operations on the Friday also to save on energy and staffing costs. We estimate that IP rose by 3.0% MM in June, generating the first YY increase since Jan-14. On a quarterly basis, we forecast that IP likely fell by 0.2% QQ in 2Q-14 after a drop of 0.6% QQ in the first quarter, coinciding with some apparent stability in capacity utilisation and very little change in business confidence.		
Italy			
Aug 6 09:00	*Industrial Production, Jun*	Forecast: 1.4% MM	Prior: -1.2% MM
London Time	June industrial output probably reversed the unexpectedly large drop recorded in May, in line with survey-based indicators which are still suggesting an expansionary phase in the industrial sector. However, even if our forecast is correct, industrial production would still be down in QQ terms relative to 1Q, by 0.2%, posing downside risks to 2Q2 GDP.		
Aug 6 10:00	*GDP, 2Q Flash*	Forecast: 0.1% QQ	Prior: -0.1% QQ
London Time	GDP should have returned to positive growth in 2Q, after a disappointing 0.1% QQ drop in 1Q. However, the weak industrial production data and the recent levelling off in survey-based indicators suggest that 2Q QQ growth was probably more muted than we had expected just a couple of months ago (we were forecasting a rebound of 0.2%-0.3% QQ). On balance economic activity was flat in 1H 14 relative to 4Q 13.		
Spain			
Aug 4 08:00	*Registered Unemployment, Jul*	Forecast: -103K MM	Prior: -123K MM
London Time	We expect the number of jobless claimants to fall by 103.4K in July, after MM declines of 123K and 112K in June and May respectively, with the job market continuing to be supported by the labour-intensive summer season. The seasonally-adjusted series should show ongoing improvement in registered unemployment (we estimate it fell by -0.3% MM in July in SA terms), as observed since August 2013. Registered unemployment, however, in recent quarters has been a less accurate indicator of the developments in the labour market than the labour force survey, due to fewer unemployed being able to access unemployment benefits. Total unemployment (as measured by the labour force survey) stood at 5.9m in 1Q 14, against 4.7m jobless claimants.		
Aug 7 08:00	*Industrial Production, Jun*	Forecast: 3.2% YY	Prior: 2.6% YY
London Time	Fairly strong survey data (manufacturing PMI stood at 54.6 in Jun, 0.8 sd above its long-term average and highest level since Apr 2007) suggest industrial production probably bounced back in June – we project by 1% MM – after a 0.7% decline in May. We expect this will translate into a YY figure (WDA) of +3.2% in June (from +2.6% in May). Going forward, rises in both new and existing orders (domestic and foreign) suggest that further output growth is likely to remain fairly robust in coming months.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts

Figure 15. **Economic Indicators – Comments: Sweden, Norway and UK**

Sweden			
Aug 5 07:30 London Time	*Services PMI, Jul*	Forecast: 55.4	Prior: 54.6
	Services sector PMI slipped 3.9 points to 54.6 in June, slightly below the long-term average. The series, though, is very volatile and one gets a more precise picture by looking at three-month moving averages. On this basis, the services PMI ticked slightly higher, to 57 in 2Q, the highest level in three years. Service sector sentiment, according to NIER, has been mixed, with sentiment in private services having ticked gradually lower since its Jan-14 peak (of 108.3), while retail trade confidence remains well above the historical average (109.6 in June). Production data paint a picture of a strong domestic economy.		
Aug 7 08:30 London Time	*Average House Prices, Jul*		
	Real estate prices for one- or two-dwelling buildings increased by 2% during the three-month period Mar-May 2014, compared to the previous period Dec13-Feb14. In annual terms, home prices gained 5% during the last three month period Mar-May 2014, compared to the same period a year earlier. House prices have increased gradually since 2013, and the uptrend looks set to continue this year; short-term indicators point to ongoing upward near-term pressures. Ahead, we expect house prices gradually to level out next year as the Riksbank starts hiking rates combined with macroprudential measures restraining lending. With the focus back on inflation, we do not expect that a continued moderate increase in housing (and lending) will have immediate implications for monetary policy.		
Aug 8 08:30 London Time	*PES Unemployment Rate, Jul*	Forecast: 4.3%	Prior: 4.1%
	Swedish labour market data was strong in June with unemployment rising less than normal for that month. Short-term indicators point to ongoing improvement on the labour market ahead. In line with the seasonal pattern, we expect the registered unemployment rate to rise in July.		
Aug 8 08:30 London Time	*Services Production, Jun*	Forecast: 0.4% MM	Prior: -1.0% MM
	Despite the drop in services production in May, the trend looks very healthy and the data continues to paint a picture of a strong domestic economy; in quarterly terms, output was up by 0.5% versus the 1Q average in April and May combined, and compares with a 0.7% QQ gain in 4Q and a 1.4% QQ rise in 1Q-14. In line with sentiment indicators, we expect the upward trend in service sector production to continue. We note, though, that production data has not been a reliable indicator for GDP over the last year or so. That said, accelerating service sector production supports our forecast of ongoing recovery for GDP in the second half of the year.		
Aug 8 08:30 London Time	*Industrial Production, Jun*	Forecast: 1.5% MM	Prior: -3.2% MM
	The trend in manufacturing production remains weak and we lack signs of recovery; average production in April and May was 0.7% below the 1Q average, and compares with a 1.2% QQ decline in 4Q-13 and a 0.3% QQ drop in 4Q-14. Ahead, we expect recovery should slowly start to take shape in line with indications from survey reports, but the upturn is likely to be weak compared to previous recoveries. We find it, however, somewhat worrying that the order intake remains at a low level, and even declined again in May (by 2.2% M/M). This is at odds with signals from business surveys of a rising order intake.		
Norway			
Aug 7 08:30 London Time	*Manufacturing Production, Jun*	Forecast: 0.2% MM	Prior: -0.3% MM
	Momentum in manufacturing production improved further in May, with the April-May gain being 0.5% above the 1Q average (1Q: 1.1% QQ, 4Q-13: -0.7% QQ). The recovery, hence, suggests that the manufacturing sector likely also will add positively to mainland GDP in 2Q.		
Aug 8 09:00 London Time	*Credit Indicator C2, Jun*	Forecast: 5.6% YY	Prior: 5.5% YY
	The latest lending survey showed that household credit demand was further up in 2Q, likely reflecting the recovery in the housing market. Meanwhile, this has not been reflected in the monthly credit growth indicator for households, which was stable at 6.8% YY on average in Apr and May. With positive house price growth for the past three months, a large downward correction on the housing market has become more remote, suggesting that household credit demands could pick up in the near term. The latest lending survey also showed a pick-up in credit demand from non-financial enterprises. The monthly development in corporate credit growth, meanwhile, moderated further in 1Q from 3.9% YY in 4Q-14 to 3.5% YY (and to 2.9% in May).		
United Kingdom			
Aug 5 09:30 London Time	*Services PMI, Jul*	Forecast: 58.0	Prior: 47.7
	The services PMI has remained above its longrun average of 55 since mid-2013, signalling above-average service sector output growth, and we anticipate another strong figure this month.		
Aug 6 09:30 London Time	*Industrial Production, Jun* *Manufacturing Output, Jun*	Forecast: 0.6% MM, 1.5% YY Forecast: 1.0% MM, 2.5% YY	Prior: -0.7% MM, 2.2% YY Prior: -1.4% MM, 3.7% YY
	The manufacturing and industrial production data showed surprising weakness in the May data and, with surveys indicating strong growth trends, we look for a sharp rebound in the June data. We would not be surprised if the May data are revised up as well.		
Aug 8 09:30 London Time	*Trade Balance – Goods & Services, Jun*	Forecast: £-2.0 Billion	Prior: £-2.4 Billion
	The trade deficit is roughly stable at present, with modest growth in both imports and exports, although business surveys suggest a fairly strong underlying trend in exports. A figure in line with our forecast would put the 2Q deficit at £6.5bn, up from £5.5bn in 1Q but below the 2013 average deficit of £7.1bn per quarter.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts

Figure 16. Key Economic Indicators (11 August – 15 August 2014)

		Forecast	Last
During The Week		**Forecast**	**Last**
07:00	Germany: Insolvencies, May (by Aug 18)		
Monday 11 August		**Forecast**	**Last**
08:15	Switzerland: Retail Sales, Jun		
09:00	Norway: Consumer Prices, Jul	-0.1% MM, 1.4% YY	-0.2% MM, 1.9% YY
	CPI-ATE, Jul	-0.2% MM, 1.8% YY	-0.2% MM, 2.4% YY
Tuesday 12 August		**Forecast**	**Last**
07:45	France: Balance of Payments, Jun		
08:30	Sweden: Consumer Prices, Jul	-0.3% MM, 0.0% YY	0.2% MM, 0.2% YY
	CPIF, Jul	-0.3% MM, 0.6% YY	0.2% MM, 0.8% YY
09:00	Italy: Consumer Prices, Jul Final		
10:00	Germany: ZEW Economic Expectations, Aug		
Wednesday 13 August		**Forecast**	**Last**
07:00	Germany: Consumer Prices, Jul Final		
07:45	France: HICP, Jul	-0.3% MM, 0.7% YY	0.0% MM, 0.6% YY
	Consumer Prices, Jul	-0.3% MM, 0.5% YY	0.0% MM, 0.5% YY
	CPI Ex Tobacco Index, Jul	125.87	126.22
08:00	Spain: Consumer Prices, Jul Final		
08:30	Netherlands: Retail Sales, Jun		
09:00	Norway: Retail Sales (ex Petrol Stations), Jun	0.4% MM	-0.9% MM
09:30	UK: LFS Unemployment, 3-Mo. Average, Apr-Jun	-167K QQ, 6.4% Rate	-121K QQ, 6.5% Rate
	LFS Unemployment, Single Month, Jun	6.4%	6.2%
	Claimant Count Unemployment, Jul	-30.0K MM, 3.0% Rate	-36.3K MM, 3.1% Rate
	Average Earnings Ex Bonuses, Apr-Jun	0.9% YY	0.7% YY
10:00	Greece: GDP NSA YY, 2Q Flash		
10:00	Euro Area: Industrial Production, Jun		
10:30	UK: Bank of England's *Inflation Report*		
Thursday 14 August		**Forecast**	**Last**
00:01	UK: RICS House Price Survey, Jul		
06:30	France: GDP, 2Q Flash	0.2% QQ, 0.4% YY	0.0% QQ, 0.8% YY
07:00	Germany: GDP, 2Q Flash		
07:45	France: Non-Farm Payrolls, 2Q Flash	-0.1% QQ, -0.2% YY	-0.1% QQ, -0.3% YY
08:15	Switzerland: Producer and Import Prices, Jul		
08:30	Netherlands: GDP, 2Q Flash	0.7% QQ, 0.9% YY	-0.6% QQ, 0.0% YY
08:30	Netherlands: Trade Balance, Jun		
09:00	Euro Area: ECB Monthly Bulletin		
10:00	Portugal: GDP, 2Q Flash		
10:00	Euro Area: GDP, 2Q Flash		
10:00	Euro Area: HICP, Jul Final		
Friday 15 August		**Forecast**	**Last**
09:00	Norway: Trade Balance, Jul		
09:30	UK: Services Output, Jun	0.3% MM, 3.6% YY	0.3% MM, 3.3% YY
09:30	UK: GDP, 2Q (2nd Estimate)	0.8% QQ, 3.1% YY	0.8% QQ, 3.0% YY

Sources: National statistical offices, central banks and Citi Research

Recent Publications

Euro Area - Sovereign Debt Update		
ECB Lending Survey Suggests Credit Crunch Is Ending	European Economics Team	Jul 31, 2014
Irish Central Bank: Eurozone Deflation Risk Not Negligible	European Economics Team	Jul 29, 2014
ECB's Praet Supports Higher German Wages	European Economics Team	Jul 28, 2014
Euro Area		
Europe: Monthly Inflation Profiles for Selected Countries	Ann O'Kelly	Jul 31, 2014
European Economic Forecast Highlights, July 2014;	Ann O'Kelly	Jul 31, 2014
Spain - Spain: Economic Recovery Strengthens in Q2	Antonio Montilla	Jul 31, 2014
Euro Area - Euro Area: Lending Survey Records Improving Credit Demand	Ebrahim Rahbari	Jul 31, 2014
Euro Area - Euro Area: Periphery-Core Rebalancing Continues in July	Ebrahim Rahbari	Jul 30, 2014
Euro Area - New 2015 ECB Calendar: Governing Council Meetings	Guillaume Menuet	Jul 18, 2014
Euro Area - ZEW Survey Confirms Downside Risks to Economic Activity	Guillaume Menuet	Jul 15, 2014
Portugal - One Lender Causes Widespread Market Turbulence	Giada Giani	Jul 10, 2014
Euro Area - Financial Conditions Improve in Q2, But Remain Tight	Giada Giani	Jul 9, 2014
Euro Area - ECB sheds light on TLTROs but no news on ABS purchases	Guillaume Menuet	Jul 3, 2014
Europe - Monthly Inflation Profiles for Selected Countries	Ann O'Kelly	Jul 2, 2014
Euro Area - Non-Core Items to Keep Pushing Headline Inflation Lower	Giada Giani	Jun 30, 2014
Euro Area - Money and credit: persistent weakness to require more support	Guillaume Menuet	Jun 30, 2014
ECB Preview - Rendez-vous in September?	Guillaume Menuet	Jun 26, 2014
European Economic Forecast Highlights - June 2014	Ann O'Kelly	Jun 26, 2014
Spain - Housing Adjustment: Are We Nearly There?	Antonio Montilla	Jun 13, 2014
Italy - Q1 GDP Details And April Industrial Output	Giada Giani	Jun 10, 2014
ECB - Door firmly open to additional stimulus and QE in late 2014	Guillaume Menuet	Jun 5, 2014
Monthly Inflation Profiles for Selected Countries	Ann O'Kelly	Jun 26, 2014
Europe - Monthly Inflation Profiles for Selected Countries	European Economics Team	Jun 5, 2014
Euro Area - Inflation Surprises Once Again to the Downside	Giada Giani	Jun 3, 2014
Euro Area - Economic Sentiment Strengthens, But France Stays Weak	Ebrahim Rahbari/Antonio Montilla	May 28, 2014
Euro Economics Weekly		
France: More Reforms to Jump Start Confidence?	Guillaume Menuet	Jul 25, 2014
Public Debt Sustainability: Has It Really Been Restored?	Giada Giani	Jul 18, 2014
Why Banking Union Matters: Then and Now	Ebrahim Rahbari	Jul 11, 2014
Is The Euro Area Recovery at Risk of Faltering?	Guillaume Menuet	Jul 4, 2014
Weak Pay Trends Imply Further Inflation Undershoot	Giada Giani	Jun 27, 2014
A Great Rotation towards Eurozone Portfolio Assets?	Ebrahim Rahbari	Jun 20, 2014
Labour Market Slack	Giada Giani	Jun 13, 2014
ECB TLTRO: Ambitious But Probably Not Enough, QE Lies Ahead	Guillaume Menuet	Jun 6, 2014
Negative Deposit Rate: Limiting Risks, Limited Upside	Ebrahim Rahbari	May 30, 2014
Soft Growth, Low HICP And Weak SPF Point To ECB Cut In June	Guillaume Menuet	May 23, 2014
Long Live (s) The Rise of the Current Account Surplus	Ebrahim Rahbari	May 16, 2014
Euro Economics Weekly - How Might QE Affect Financial Conditions?	Giada Giani	May 9, 2014
ECB: Reaction Function Points to Looser Stance Ahead	Guillaume Menuet	May 2, 2014
Private Deleveraging: Picking Up, but Hurting Less	Ebrahim Rahbari	Apr 25, 2014
Portugal: "Clean Exit" or Precautionary Credit Line?	Giada Giani	Apr 17, 2014
France: Will Valls Succeed Where Others Have Failed?	Guillaume Menuet	Apr 11, 2014
The Rise of The Output Gap	Ebrahim Rahbari	Apr 4, 2014
Italy — Some Short-Term Optimism	Giada Giani	Mar 28, 2014
Euro Area: Upside Risks To Q2 GDP	Guillaume Menuet	Mar 21, 2014
Chief Economist Publications		
Global Economic Outlook and Strategy - July 2014	Willem Buiter	Jul 30, 2014
Global Economic Forecasts - July 2014	Michael Saunders	Jul 31, 2014
Scandi		
Scandi Economics Update	Tina Mortensen	Aug 1, 2014
Sweden - Weak Recovery for GDP in 2Q	Tina Mortensen	Jul 30, 2014
UK		
UK: EC Survey Suggests Continued Rapid Job Growth	Michael Saunders	Jul 30, 2014
UK - BoE Data;	Michael Saunders	Jul 29, 2014
UK - Why is Average Earnings Growth So Weak?	Michael Saunders	Jul 8, 2014
UK - Manufacturing Output Falls Back	Michael Saunders	Jul 8, 2014
UK Economics Weekly		
Economy Likely to Outperform Further	Michael Saunders	Jul 11, 2014
Is 2.5% Really the "New Neutral"?	Michael Saunders	Jul 4, 2014

Source: Citi Research

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES
Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Ebrahim Rahbari; Guillaume Menuet; Giada Giani; Michael Saunders; Antonio Montilla; Ann O'Kelly

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Bell Potter Customers: Bell Potter is making this Product available to its clients pursuant to an agreement with Citigroup Global Markets Australia Pty Limited. Neither Citigroup Global Markets Australia Pty Limited nor any of its affiliates has made any determination as to the suitability of the information provided herein and clients should consult with their Bell Potter financial advisor before making any investment decision.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citigroup Global Markets Australia Pty Limited. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in Chile through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. 1202, 12th Floor, FIFC, G Block, Bandra Kurla Complex, Bandra East, Mumbai - 400051 Corporate Identity Number: U99999MH2000PTC126657 Tel:+9102261759999 Fax:+9102261759961. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Israel through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in Japan by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the Philippines through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary

Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in the Republic of China through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 399 Interchange 21 Building, 18th Floor, Sukhumvit Road, Klongtoey Nua, Wattana ,Bangkok 10110, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the U.A.E, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This material may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA nor regulated by the FCA and the PRA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Thomson Reuters.

© 2014 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

VISIT CITIVELOCITY.COM for access to Citi's cross-asset research, commentary, data and analytics.

CitiVELOCITY℠