

Global Economic Outlook and Strategy

January 2013

- With improving financial conditions and taking some account of ongoing plus future policy stimulus, we are raising our forecasts for industrial country growth by 0.1% for both 2013 and 2014. The main upward revisions from the last GEOS are for the US and Japan, whereas we continue to expect GDP will fall in both 2013 and 2014 in the euro area and have cut our forecasts for various smaller economies (UK, Sweden, Australia, New Zealand). For 2013, the advanced economy upgrade is offset by a slight downgrade to our EM forecasts to leave our global growth forecast at 2.6%, while we are edging up our 2014 global growth forecast from 3.1% to 3.2% (at current exchange rates). After last year's slowdown, we continue to expect China's economic growth to level off at 7-8% this year and 7-7½% per year in 2014-2017, reflected in ongoing rapid productivity gains.
- Even with the recent improvement in financial conditions, major central banks are likely to keep monetary policy loose and indeed to loosen further, with ongoing asset purchases by the Fed and BoJ, further ECB rate cuts and renewed QE by the BoE. We do not expect a turn to tightening until 2015 for the Fed, and even later by the BoJ, ECB and BoE. Further nearterm loosening is likely in some EM countries but, beyond that, a range of EM central banks will probably begin to tighten policy late this year and into 2014.
- There are major policy uncertainties across advanced economies. In Japan, the new inflation target may yet lead to even more policy loosening than we expect, while in the UK the change of BoE Governor may also prompt extra easing, especially if the government relaxes the inflation target. In the US, risks of heavy early fiscal tightening are receding but are not ended. In the euro area, the ECB and creditor nations will probably aim to keep markets calm for now. But, we still expect that eventually Greece will leave the euro (probably in 2014), and that several periphery countries ultimately will need some form of sovereign debt restructuring — most likely from 2015 onwards. We expect the UK and Portugal to both have their sovereign credit ratings cut by at least one notch by at least one major agency in the next 2-3 quarters, given the rising public debt ratios. Over the next few years, we expect further sovereign rating downgrades, including the US, Japan and a string of EMU members.

Chief Economist

Willem Buiter

+44-20-7986-5944
willem.buiter@citi.com

Global Head of International Economics

Nathan Sheets

+1-212-816-9297
nathan.sheets@citi.com

Michael Saunders

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

Robert V DiClemente

+1-212-816-7942
robert.diclemente@citi.com

Kiichi Murashima

+81-3-6270-4981
kiichi.murashima@citi.com

David Lubin

+44-20-7986-3302
david.p.lubin@citi.com

Johanna Chua

+852-2501-2357
johanna.chua@citi.com

Joaquin A Cottani

+1-212-816-2735
joaquin.cottani@citi.com

With thanks to Jan Maguire

Next issue 27 February 2013

Figure 1. Currency and Interest Rate Forecasts, as of 23 January 2013

	23 Jan 2013	1Q 13F	2Q 13F	3Q 13F	4Q 13F	1Q 14F	2Q 14F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-Yr. Treasuries (Period Ave.)	1.82	1.80	1.95	2.20	2.50	2.65	2.90
Euro Area: US\$/€	1.33	1.35	1.34	1.32	1.32	1.31	1.31
Euro Repo Rate	0.75	0.75	0.50	0.25	0.25	0.25	0.25
10-Yr. Bunds (Period Ave.)	1.55	1.55	1.55	1.75	1.50	1.25	1.50
Japan: Yen/US\$	90	94	95	96	95	94	93
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.73	0.80	0.95	0.85	1.05	1.05	0.95

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

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

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.

Not for distribution in the People's Republic of China, excluding the Hong Kong Special Administrative Region.

Contents

Forecast Highlights and Changes from Last Month	3
Industrial Production Forecasts	3
Overview — Better Growth Prospects, Major Policy Uncertainties	4
Economic Forecast Overview Tables	8
Short Rates, 10-Year Yield Forecasts and 10-Year Yield Spreads	12
Emerging Market Countries — Short Rates and Forecast	13
Foreign Exchange Forecasts	13
Country Commentary	
■ United States	14
■ Japan	15
■ Euro Area	16
■ Germany, France and Italy	17
■ Spain, Greece, Ireland and Portugal	18
■ Netherlands, Belgium, Slovakia and Slovenia	19
■ UK	20
■ Switzerland, Sweden, Denmark and Norway	21
■ Canada	22
■ Australia and New Zealand	23
■ China	24
■ India	25
■ Korea and Indonesia	26
■ Hong Kong, Singapore and Taiwan	27
■ Russia and Turkey	28
■ Hungary and Poland	29
■ Czech Republic and Romania	30
■ Brazil and Mexico	31
■ Argentina and Venezuela	32
■ Saudi Arabia and United Arab Emirates	33
■ Egypt, Nigeria and South Africa	34
Emerging Market Countries Economic Forecast Overview	35
Sovereign Ratings Outlook	36
Interest Rate and Bond Yield Outlook	38
Citi Commodity Forecasts	40
Citi Global Economics Team	43

Figure 2. Forecast Highlights and Changes from Last Month

■ Global	We are edging up our growth forecast for advanced economies in both 2013 and 2014, but cutting that for emerging markets slightly in 2013. The overall effect is to leave our global growth forecasts unchanged for 2013 and revised up by 0.1% for 2014. The main upward revisions to our growth forecasts from the last GEOS are for the US and Japan, whereas we have cut our UK growth forecasts and continue to expect GDP will fall in both 2013 and 2014 in the euro area.
■ United States	Despite weak output in Q4, strong private demand, supportive financial conditions and rebounding housing markets have boosted growth prospects modestly for this round. The fiscal outlook assumes small-scale debt and deficit deals, while the Fed is expected to begin phasing down QE late in 2013.
■ Euro Area	With ongoing private sector deleveraging and fiscal tightening we expect the euro area to contract by 0.6% in 2013 and 0.4% in 2013. While the ECB has substantially reduced risks of an EMU break-up and first steps on a banking union are underway, the sovereign debt crisis is far from being over. We expect the ECB to cut the refi rate by 25bp to 0.5% in 2Q, followed by another 25bp cut before the end of the year, with a decent chance of a negative deposit rate at that stage.
■ China	GDP data for 4Q/2012 confirmed a cyclical rebound. With limited upside risks, we keep our growth forecast for 2013 at 7.8%. Policies will likely remain supportive in the near term, but may gradually shift from an easing bias to a neutral position, as downside risks decline and inflation starts to trend up. Growth may briefly exceed 8% in 1H benefiting from lagged effect of policy accommodation in 2012.
■ Japan	The BoJ leadership will be replaced in a sweeping manner this spring. Whoever becomes the next governor, the BoJ appears likely to implement asset purchases more aggressively, for example by extending the maximum maturity of JGBs it purchases. We expect the new governor to take a new easing step at his very first meeting on April 26.
■ United Kingdom	The UK is in triple dip territory, with GDP probably falling in Q4-2012 and little or no growth likely in 2013. Monetary policy is likely to loosen further via QE and — once the new BoE Governor is in place — probably also rate guidance and perhaps even a rate cut.
■ Canada	We have postponed our expectation of renewed monetary policy tightening from July to October of this year, given somewhat reduced underlying momentum.
■ Australia	There is still no clear evidence that the domestic economy is getting meaningful traction from the series of RBA rate cuts so we expect two further cuts in H1 this year.
■ Emerging Asia (ex China)	Asia's growth prospects are improving with the help of external demand, especially with positive surprises from the US. With the exception of a few countries, inflation is expected to be on a gradually rising path but nothing too alarming — central banks in Korea and India are still expected to cut soon, while most will likely be on hold and tolerate some FX appreciation to tighten monetary conditions. Indonesia is the exception, where rate hikes are likely needed to safeguard the external position and rupiah.
■ CEEMEA	The outlook stays bleak for central Europe: we've had to mark down 2012 growth in Hungary, Poland, Romania, Russia and Slovakia; and 2013 growth has been downgraded in Russia and Czech Republic. This has also produced some downward revision in our inflation forecasts for the region, although Egyptian and South African inflation forecasts are up on the back of exchange rate pressure.
■ Lat Am	In face of the disappointing recovery in Brazil, we have revised our 2013 GDP growth estimate down to 3.1%, although recent supply shocks have led us to raise our inflation forecast to 5.6%. Our macro forecasts for Mexico remained practically unchanged and we maintain our bullish call on the MXN, supported by the political outlook. Economic growth in Argentina remained muted in 2012, though we expect a slight recovery in 2013 on the back of better external demand. Uncertainty over President Chávez' health remains as the most important topic in Venezuela and we do not expect required economic measures to take place until uncertainty over the subject is resolved.

Source: Citi Research

Figure 3. Selected Countries — Industrial Production Forecasts (Pct.), 2012-14F

	2012F	2013F	2014F
World	1.7%	2.1%	3.6%
United States	3.8	2.4	4.2
Japan	-0.9	0.9	1.7
Euro Area	-2.4	-2.2	0.2
United Kingdom	-2.5	-0.9	0.8
Canada	0.4	-0.5	1.7
China	10.0	10.0	9.3
India	3.2	4.4	5.6
Korea	1.7	3.0	5.5
Brazil	-2.7	2.5	3.8

Source: Citi Research

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

We are slightly raising our global growth forecasts for 2013 and 2014

The upward revisions are concentrated in the US and Japan...

...with a slight upgrade also for the euro area but downgrade for the UK

China's economy seems to be picking up slightly in response to policy easing...

Overview — Better Growth Prospects, Major Policy Uncertainties

With improving financial conditions and ongoing plus future policy stimulus, we are raising our forecasts for advanced economy growth to 1.0% in 2013 and 1.6% in 2014 (from 0.9% and 1.5% previously¹), measured at current exchange rates. For 2013, the advanced economy upgrade is offset by a slight downgrade to our EM forecasts to leave our global growth forecast at 2.6%, while we are edging up our 2014 global growth forecast from 3.1% to 3.2% (at current exchange rates). At PPP-exchange rates, our forecasts are for growth of 3.2% in 2013 and 3.7% in 2014, unchanged from previously. Our forecasts imply that, despite modest advanced economy growth, global growth in 2013-14 will be close to the average of the last 30 years (2.9% YoY at current FX rates, 3.5% PPP-weighted).

The main upward revisions to our growth forecasts from the last GEOS are for the US and Japan. We have revised up our US growth forecast by 0.3% for 2013 and by 0.1% for 2014 (to 1.9% and 3.1% respectively). This reflects the continued improvement in domestic demand in Q4-12, supportive financial conditions and reduced fiscal-cliff risks of heavy early fiscal tightening². With the drag from private deleveraging easing and a clear recovery in housing, we continue to expect that US growth will rise to about 3% QoQ SAAR in H2 this year and in 2014. At the same time, we have lifted our Japan growth forecast by 0.6% for 2013 and by 0.5% for 2014 (to 1.3% and 1.2% respectively), reflecting the recent yen depreciation and the large economic stimulus package, centered on public works spending, announced earlier this month. This is the biggest upward revision to our Japan growth forecast for the current and next year from one GEOS to the next since 2004.

With some easing of financial strains, we also are edging up our 2013 euro area growth forecast by 0.1%, although we continue to expect that the euro area will remain in recession this year and in 2014, with GDP falling by 0.6% this year and by 0.4% in 2014. Our forecast implies that the gap between US and euro area growth this year will remain similar to 2012 (2.7%) which was the widest since the early 90s. Against that, we have notable forecast downgrades to a range of smaller economies, including the UK, Australia, New Zealand and Sweden. Our EM growth forecasts also are a bit weaker for 2013, with downgrades to our forecasts for Brazil, the Czech Republic, Hungary, Russia and Venezuela offsetting slight upgrades for Nigeria and South Africa.

After last year's slowdown, China's economy appears to have picked up slightly in recent months, and we continue to expect growth to level off at 7-8% this year and each year to 2017. Both monetary policy and credit supply have been loosened, and — while the working age population is now falling — productivity growth continues to benefit from catch-up industrialization and modernization. China's labour productivity growth (GDP per person employed) has averaged 8.9% YoY over the last five years — the highest of any country — and even though it slowed to 7.4% YoY in 2012, this remains extraordinarily high compared to other countries (exceeded in 2012 only by Nigeria)³. We expect China's productivity growth will stay high by global standards for many more years. Real GDP per person employed has risen from 6% of the US level in 2000 and 9% in 2005 to 17% in 2012. But, China's

¹ See "Prospects for Economies and Financial Markets in 2013 and Beyond", Willem Buiter et al, 26 November 2012, Citi

² See "Upgraded Outlook Defies Uncertainties", U.S. Economics Weekly: Market and Policy Comments, Robert V DiClemente, 18 January 2013, Citi

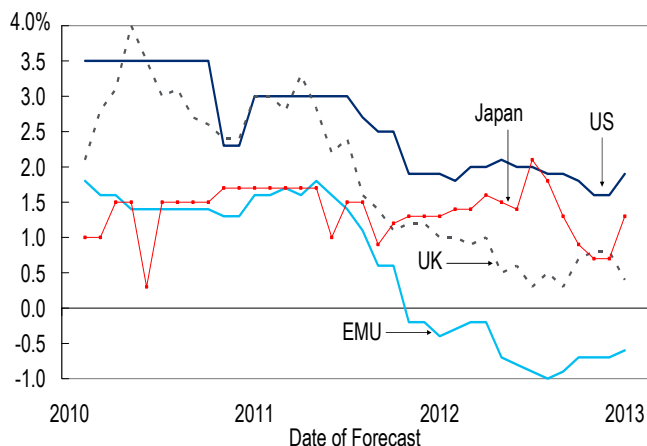
³ Source: "2013 Productivity Brief", US Conference Board, January 2013, and associated global database. The second highest productivity growth over the last five years was in Turkmenistan (8.2% YoY on average). If we exclude countries with population below 10 million people, the second highest productivity growth was in Ghana (5.7% YoY on average).

relative GDP per person (ie real GDP per person in work as a percentage of the US level) is about the same as that of Japan in 1950 (19%), or Taiwan in 1965 (18%) or Korea in 1970 (18%) — and the industrialization booms of those countries continued to produce rapid productivity gains for several decades. For comparison, among the Western Europe economies, the least productive economy is Portugal, with real GDP per person in work at 47% of the US level.

...and we continue to expect that China's economy will be propelled by high productivity growth for many years

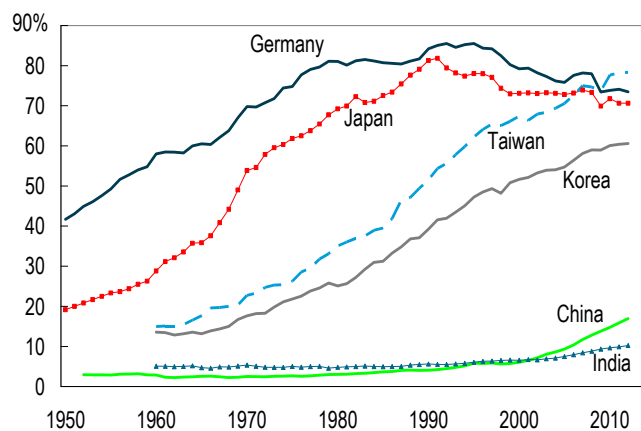
We have doubts about the longrun viability of China's investment-intensive growth mix, but doubt it has yet hit its limits. Total factor productivity (TFP) growth remains quite strong (about 2% YoY), whereas TFP growth in the US and euro area during the pre-crisis boom was close to zero or negative, reflecting over-investment and the poor allocation of resources. It is unclear whether China's GDP per person will ever fully catch up with Korea (61% of the US level) or Taiwan (78% of the US level) — let alone the US — but we suspect that the industrialization and modernization boom will continue for many more years. In turn, China's rapid growth is likely to sustain demand for commodities, and spill over into relatively high growth in countries and companies with strong export exposure in China.

Figure 4. US, EMU, Japan and UK — Citi Forecasts for 2013 GDP Growth, 2010-13



Source: Citi Research

Figure 5. Selected Countries — Real GDP Per Person in Work, As Pct US Level, 1950-2012



Sources: US Conference Board and Citi Research

Despite the easing in financial market strains, economic prospects for the periphery countries remain poor...

The "Draghi put" continues to help ease euro area financial strains, and this has helped improve some recent economic surveys. However, saving the euro is not the same as ending the euro crisis and achieving a return to normal growth. The underlying economic problem is that overall euro area nominal growth is weak and periphery economies face additional powerful headwinds from private deleveraging, poor credit availability and heavy fiscal drag. Export gains are unlikely to be large enough to achieve sustained economic recovery in periphery economies. Hence, we continue to expect that economic weakness will cause fiscal deficits and public debt ratios in periphery economies to stay high and generally to overshoot official forecasts. Even in Ireland, which has the advantages of extreme openness (exports above 100% of GDP) and supply-side flexibility, the economy is capped by the "patent cliff" and sharp patent-related declines in industrial production probably caused GDP to fall in Q4-2012.

...and time makes the economic problems greater not smaller

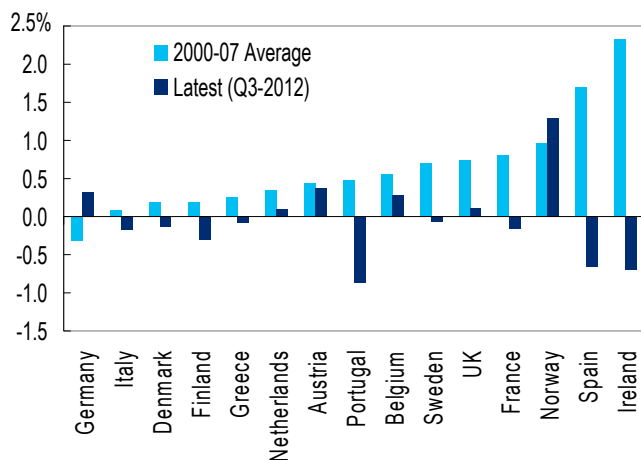
The time bought through the "Draghi put" will not, we expect, diminish the challenge faced by the periphery economies. Rather, as the period of economic underperformance extends, potential growth in periphery economies is likely to stay low, hence leaving these countries with shrunken tax bases on which to finance

their elevated debt ratios. Foreign investment and — increasingly — people continue to exit periphery countries. Eurostat reports that, in Q3-2012, the population of working age fell by 0.7% YoY in Ireland and Spain, by 0.9% YoY in Portugal, by 0.2% YoY in Italy, and by 0.1% YoY in Greece. At the same time, BIS data show that the exposure of foreign banks to periphery economies continues to fall rapidly, with exposure to each of Italy, Spain, Portugal, Ireland and Greece down by more than 10% YoY and by more than 50% from the recent peaks. In turn, even though financial market strains have eased and bank lending rates to non-financial companies (taking loans up to €1million) in Germany hit a record low in November, bank lending spreads over Germany are still higher than a year ago in Ireland, Portugal, Spain and Italy.

We expect external support for periphery countries for now, but longrun we continue to expect Grexit and widespread sovereign debt restructuring

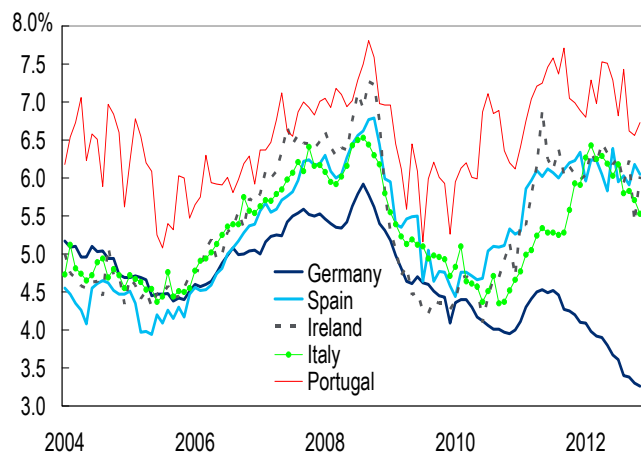
For now, we continue to assume that Spain and Italy will probably enter some form of ESM programme (most likely a conditionality-light ECCL programme) during this year, although the timing is uncertain. Ireland probably will get a second programme (again, most likely an ECCL), which (along with evidence of market access) would be enough to activate the ECB's OMT facility. Portugal probably will get a full second programme, and some form of rescue package probably will be agreed for Cyprus this year⁴. But, longer term, we expect that EMU financial strains will recur, perhaps late this year. Our base case remains for eventual Grexit and, further down the road, sovereign debt restructuring across a wider range of euro area countries, including Italy, Spain, Portugal and Ireland. It is possible that Ireland could achieve sufficient debt relief through restructuring the Promissory Notes and official loans alone, but recent proposals to merely limit the coupon and slightly extend the maturity of these debts may not be enough to achieve fiscal sustainability.

Figure 6. EU15 Countries (Plus Norway) — YoY Growth of Working Age Population, 2000-12



Sources: Eurostat and Citi Research

Figure 7. Euro Area — Average Bank Lending Rates on New Loans up to €1Million to Non-Financial Companies, 2004-12



Sources: ECB and Citi Research

There are key policy uncertainties in major advanced economies...

Against this backdrop, we expect monetary policy to loosen further nearterm in the main advanced economies and to stay loose for an extended period. But, as well as the usual economic uncertainties, there also are big uncertainties over the policy outlook in main advanced economies.

⁴ See "Cyprus – Some Form of Debt Restructuring Looks Increasingly Likely", Euro Economics Weekly, Giada Giani, 11 January 2013, Citi

...with the possibility that the BoJ might actually set policy to hit its new inflation target...

■ In Japan, the BoJ has committed to a new 2% inflation target, and announced a larger asset purchase program. However, at present we do not expect that the BoJ's actions will be enough to achieve 2% inflation on a sustained basis in coming years. And yet, in our view, it is always possible to lift inflation if policymakers are prepared to do "whatever it takes" (which, in Japan's case, would probably include a weaker yen). A key risk to our forecasts is that the BoJ and MoF might actually genuinely set policy to achieve sustained 2% inflation, hence most likely including more monetary easing (including Yen weakness) and fiscal loosening than our base case — and also lifting growth further.

...continued fiscal uncertainties in the US...

■ In the US, the Fed has clearly signaled its intention to keep policy loose for an extended period, but there are major fiscal uncertainties. So far, it seems likely that the three-part challenge of the debt ceiling, the sequester and spending authority for the balance of fiscal 2013 will be hurdled in a minimalist way with a minor deal or deals. As of this writing, the House is set to vote imminently on legislation that would suspend the debt ceiling, allowing Treasury room to borrow what it needs through mid-May with conditions. The measure would serve the dual purpose of defusing the most pressing default issue and focus the debate on spending discipline. Our forecast assumes that the static fiscal drag from policy changes this year will amount to about 1%. But, risks remain that political disagreements could yet prompt heavy early fiscal restraint that scuppers what is otherwise likely to be a steadily strengthening recovery.

...uncertainties over whether the ECB's commitment to do "whatever it takes" to save the euro will be enough eventually to prevent sovereign debt restructuring...

■ In the euro area, we assume that the ECB will do whatever it takes to save the euro, and that Germany will try to avoid creating financial market strains before the late-2013 general election⁵. Eventually, however, the creditor nations will probably have to choose between lasting fiscal burden-sharing with the periphery, or sovereign debt restructuring. Over time, we expect the creditor nations will become increasingly unwilling to continue to support periphery countries, and hence expect greater eventual acceptance of sovereign debt restructuring. We do not believe that debt restructuring will cause the euro to split: indeed, we believe risks of EMU disintegration would eventually be greater if debt restructuring does not occur. Clearly, though, the timeline of debt restructuring is very uncertain and probably distant. Indeed, if euro policymakers believe that debt restructuring would irrevocably fracture the euro, then they may continue to do "whatever it takes" to avoid it — which eventually would have to mean a greater move towards debt mutualisation.

...and uncertainties over the UK MPC's target and policy tools

■ In the UK, the MPC's target and tools might both change once Mark Carney takes over as BoE Governor from mid-13. We believe there is a decent chance that the Chancellor will alter the 2% CPI inflation target to a 1-3% band, with the MPC tasked to usually aim for the centre of the band⁶. Most inflation targeting central banks have a target range and central tendency. It has the advantage (like nominal GDP targets) of helping the central bank downplay modest but persistent inflation undershoots/overshoots if economic conditions justify, without the downsides of nominal GDP targets (lags in data publication, data revisions, need to change the nominal growth target as potential growth estimates change). We also expect that, under Carney, the MPC will start to give Fed-style guidance that rates are likely to stay low for a long time given the economic outlook. A cut in Bank Rate also may be back on the agenda. QE, which is likely to resume, probably will continue to be focused on gilts rather than private sector assets.

⁵ See "Germany: Economy and Politics Matter in 2013", Euro Economics Weekly, Jürgen Michels, 18 January 2013, Citi

⁶ See "New Year, New Governor and New Targets", Michael Saunders, 19 December 2012, Citi

Figure 8. Selected Countries — Economic Forecast Overview (Percent), 2012-2017F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Global	2.5	2.6	3.2	3.6	3.8	3.7	2.8	2.8	3.0	2.9	2.9	2.9	2.34	2.20	2.38	2.78	3.19	3.28
Based on PPP weights	3.1	3.2	3.7	4.0	4.3	4.2	3.2	3.2	3.3	3.3	3.3	3.3	2.93	2.78	2.96	3.35	3.71	3.77
Industrial Countries	1.2	1.0	1.6	2.2	2.5	2.1	1.9	1.6	1.9	1.7	1.7	1.7	0.62	0.46	0.49	0.87	1.35	1.84
United States	2.2	1.9	3.1	3.5	4.0	3.0	1.7	1.5	2.1	2.1	2.1	2.1	0.25	0.25	0.25	1.10	2.10	2.90
Japan	2.0	1.3	1.2	1.5	1.2	1.2	0.0	-0.3	1.9	0.5	0.2	0.5	0.07	0.07	0.13	0.10	0.10	0.10
Euro Area	-0.5	-0.6	-0.4	0.7	1.0	1.1	2.5	1.8	1.5	1.5	1.4	1.3	0.88	0.44	0.25	0.25	0.31	0.75
Canada	2.0	1.8	2.7	3.2	3.3	2.8	1.5	1.3	2.0	2.0	2.0	2.0	1.00	1.13	2.13	2.50	3.00	3.00
Australia	3.6	2.4	3.0	3.5	3.6	3.2	1.8	2.9	2.5	2.8	2.5	2.3	3.56	3.00	3.50	4.00	4.75	4.75
New Zealand	1.8	2.2	2.3	3.2	3.4	3.1	1.2	1.8	2.1	2.9	2.8	2.5	2.50	2.69	4.00	4.75	5.00	5.00
Germany	0.9	0.5	0.5	1.0	1.3	1.5	2.0	2.0	2.3	2.0	2.0	1.9						
France	0.0	-0.2	0.2	1.0	1.5	1.9	2.2	1.3	1.7	1.6	1.8	1.6						
Italy	-2.1	-1.4	-1.4	0.3	0.2	0.2	3.3	2.1	1.3	0.6	0.3	0.4						
Spain	-1.4	-2.2	-2.0	0.6	1.2	1.0	2.4	1.1	0.3	0.5	0.6	0.5						
Greece	-6.1	-6.5	-11.5	-3.6	1.6	2.8	1.0	0.3	16.8	13.3	7.9	6.7						
Ireland	0.5	0.5	1.5	0.9	1.6	1.6	2.3	1.2	1.4	1.6	1.6	1.7						
Portugal	-3.1	-3.7	-2.8	-0.3	0.9	0.9	2.8	1.7	0.9	0.8	0.9	0.4						
Netherlands	-1.0	-0.9	0.3	1.0	1.2	1.3	2.5	2.6	1.7	2.0	1.7	1.4						
Belgium	-0.2	-0.3	0.3	1.2	1.5	1.8	2.8	1.6	1.9	2.2	2.2	1.9						
Denmark	-0.4	0.9	1.8	1.8	1.9	2.0	2.4	1.8	1.9	1.9	2.0	2.0	0.43	0.10	0.25	0.50	0.60	1.00
Norway	3.4	3.1	2.7	2.7	2.9	2.9	0.7	1.7	2.0	2.3	2.5	2.5	1.60	1.60	2.00	2.50	3.00	3.50
Sweden	1.1	1.0	2.5	2.6	2.8	2.6	0.9	0.4	1.7	1.8	2.2	2.3	1.45	0.80	1.00	1.80	2.40	2.80
Switzerland	1.0	1.4	1.2	1.3	1.3	1.5	-0.7	-0.9	-0.6	0.7	0.8	1.0	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.1	0.4	0.7	1.3	1.5	1.5	2.8	2.9	2.3	2.1	2.0	1.8	0.50	0.50	0.50	0.50	0.50	1.04
Emerging Markets	4.7	5.2	5.5	5.5	5.6	5.7	4.4	4.6	4.7	4.7	4.6	4.5	5.20	4.91	5.16	5.51	5.72	5.18
China	7.8	7.8	7.3	7.0	7.5	7.3	2.6	2.8	3.6	3.8	3.8	4.0	3.25	3.13	3.50	3.75	3.88	4.00
Taiwan	1.1	3.0	3.8	4.0	4.5	4.5	1.9	2.0	1.8	1.8	1.8	1.8	1.88	1.88	1.97	2.38	2.88	3.38
India	5.4	6.2	6.9	7.3	7.4	7.5	7.5	7.0	6.0	6.0	6.0	6.0	7.80	7.50	7.50	7.50	7.50	7.50
Indonesia	6.2	6.1	6.3	6.5	6.5	6.7	4.3	4.7	4.7	5.7	5.4	5.3	3.90	4.19	4.50	4.63	5.13	5.30
Korea	2.1	3.2	4.1	4.3	4.2	3.7	2.2	2.6	3.0	3.2	3.1	3.0	3.06	2.56	3.31	3.75	4.13	4.38
Czech Republic	-1.1	-0.2	0.9	2.0	2.3	2.7	3.3	2.0	1.2	2.2	1.8	2.0	0.51	0.05	0.08	0.79	1.63	2.54
Hungary	-1.7	0.2	1.3	0.9	1.3	1.5	5.7	3.5	3.6	3.9	3.5	3.3	6.77	5.06	5.00	4.94	4.50	4.60
Poland	1.9	1.3	2.8	3.3	3.3	3.2	3.7	2.1	2.4	2.5	2.5	2.5	4.61	3.50	3.29	4.15	4.73	4.74
Romania	0.4	1.7	2.9	3.5	4.0	4.0	3.3	4.6	3.5	3.0	2.5	2.5	5.25	5.25	5.50	5.50	5.00	5.00
Russia	3.5	3.0	3.7	3.3	3.3	3.4	5.1	6.5	5.7	4.9	5.0	4.6	8.07	8.10	7.50	7.00	7.00	0.00
Turkey	2.8	4.0	4.3	4.6	4.5	4.5	8.9	7.4	7.3	6.9	6.4	5.8	5.69	5.19	6.88	8.00	8.00	7.50
Nigeria	7.4	6.8	7.2	6.9	7.2	7.0	12.2	10.3	9.2	12.2	10.8	9.9	12.00	11.00	10.50	12.50	11.00	9.00
South Africa	2.4	2.8	3.1	4.0	4.2	4.4	5.8	6.0	5.3	5.5	5.6	5.6	5.25	5.00	5.08	6.17	6.50	6.50
Argentina	1.9	3.0	3.0	2.0	-2.0	3.5	10.0	12.6	14.5	15.0	50.0	30.0	13.89	17.74	20.83	22.00	22.00	22.00
Brazil	0.9	3.1	4.2	3.5	3.5	3.7	5.4	6.1	5.5	5.4	4.8	4.5	8.46	6.69	6.50	8.00	9.25	8.75
Mexico	3.9	3.6	3.8	4.0	3.8	3.7	4.1	3.8	3.7	3.6	3.6	3.6	4.50	4.50	4.65	5.46	6.42	6.42
Venezuela	5.2	2.0	2.0	2.1	2.5	2.5	21.1	24.2	24.3	26.4	24.3	24.3	14.40	14.40	14.40	14.80	14.80	14.80

Note: For inflation, we use the PCE deflator in the US, wholesale price index in India, GDP deflator in Ireland. For Indonesia we refer to the FasB1 rate to reflect actual money market rates. Source: Citi Research

Figure 9. Selected Countries — Economic Forecast Overview (Percent), 2012-2017F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Global	0.3	0.3	0.1	0.0	-0.2	-0.3	-4.4	-4.0	-3.2	-2.7	-2.4	-2.3	88	90	89	88	87	85
<i>Based on PPP weights</i>	0.1	0.1	0.0	-0.2	-0.3	-0.4	-4.3	-3.9	-3.3	-2.8	-2.5	-2.4	79	80	79	78	77	75
Industrial Countries	-0.8	-0.4	-0.3	-0.2	-0.2	-0.2	-5.9	-5.3	-3.9	-3.0	-2.7	-2.5	117	122	122	123	123	123
United States	-3.0	-2.7	-2.6	-2.7	-2.8	-2.8	-8.3	-7.2	-5.0	-4.0	-4.0	-4.0	106	110	112	112	112	112
Japan	1.0	0.4	1.6	1.5	1.5	1.5	-10.7	-9.8	-7.0	-6.2	-5.8	-5.4	237	245	246	250	254	257
Euro Area	1.0	2.4	2.1	2.1	2.1	2.1	-3.2	-2.8	-2.4	-1.4	-1.0	-0.5	94	97	95	95	93	91
Canada	-4.1	-4.6	-4.1	-3.2	-2.9	-2.5	-1.4	-0.9	-0.4	-0.1	0.1	0.1	86	86	85	83	82	81
Australia	-3.9	-4.8	-5.4	-3.5	-3.2	-3.0	-3.0	-0.8	0.0	0.2	0.3	0.5	29	30	28	26	24	23
New Zealand	-6.2	-8.7	-9.1	-7.9	-6.5	-5.8	-5.3	-3.2	-1.1	0.1	0.9	0.9	39	38	42	42	41	40
Germany	6.3	5.8	5.2	4.8	4.7	4.7	0.1	-0.3	-0.4	-0.3	-0.1	0.0	83	82	81	80	78	76
France	-2.2	-1.3	-0.6	0.0	0.5	0.3	-4.5	-3.6	-2.8	-2.3	-1.4	-0.2	91	95	97	97	95	91
Italy	-1.3	-0.9	-0.7	-0.3	0.0	0.2	-2.8	-2.5	-2.6	-0.2	0.1	0.0	126	130	134	132	131	130
Spain	-1.6	1.4	2.6	2.1	1.7	0.9	-8.1	-6.3	-5.8	-3.6	-2.8	-1.9	88	97	110	112	113	113
Greece	-4.3	-3.3	2.2	3.9	4.5	3.0	-7.2	-5.7	-1.4	-0.4	2.8	4.0	158	180	408	366	301	84
Ireland	4.5	5.8	6.8	6.8	7.0	7.0	-7.8	-7.3	-4.8	-2.0	-1.5	-1.7	116	118	119	116	113	111
Portugal	-3.7	-1.4	-1.0	-0.9	-0.6	-0.5	-5.0	-5.2	-4.8	-3.6	-3.1	-2.6	121	135	109	114	115	115
Netherlands	9.7	9.7	8.7	9.2	9.2	9.4	-3.9	-3.8	-3.8	-2.6	-2.5	-1.9	70	73	76	76	77	77
Belgium	-0.9	-0.7	-0.8	-0.7	-0.5	0.0	-2.8	-2.4	-1.8	-1.3	-0.7	0.1	110	116	115	113	110	106
Denmark	5.7	5.0	4.4	4.2	4.0	3.8	-3.8	-2.0	-1.2	-1.0	0.5	1.0	50	50	50	49	46	44
Norway	14.3	14.9	15.2	15.2	15.8	14.5	13.6	13.2	13.0	14.0	15.5	15.0	NA	NA	NA	NA	NA	NA
Sweden	7.1	7.2	7.0	6.8	6.9	6.9	-0.5	-1.2	-1.1	-0.2	0.7	1.5	37	37	37	36	33	30
Switzerland	12.4	12.6	12.7	13.6	15.0	14.0	0.6	0.6	0.6	0.4	0.2	-0.6	47	45	44	43	43	44
United Kingdom	-3.7	-3.2	-2.9	-2.6	-2.2	-1.9	-5.4	-6.9	-6.7	-6.1	-5.1	-4.8	90	95	99	102	103	105
Emerging Markets	2.0	1.2	0.7	0.2	-0.1	-0.3	-1.9	-2.0	-2.2	-2.2	-2.0	-2.0	41	41	40	39	38	37
China	2.5	2.0	1.5	1.0	0.7	0.5	-2.4	-2.0	-2.0	-2.0	-1.5	-1.5	44	43	41	39	37	35
Taiwan	8.7	8.4	8.0	8.0	8.0	8.0	-1.6	-1.2	-1.3	-1.0	-0.7	-0.5	39	40	42	43	44	44
India	-4.0	-3.5	-3.0	-3.0	-3.0	-3.0	-8.5	-8.0	-7.5	-7.0	-6.5	-6.0	68	67	66	65	64	63
Indonesia	-2.6	-2.0	-1.5	-1.2	-0.9	-0.8	-1.8	-1.5	-1.4	-1.0	-0.5	-0.4	24	22	21	21	20	20
Korea	3.7	2.2	1.8	0.8	0.1	-0.5	1.4	1.1	1.4	2.5	2.7	2.0	34	33	31	29	27	26
Czech Republic	-2.0	-2.3	-3.4	-2.6	-2.2	-0.8	-4.8	-3.1	-2.7	-2.2	-1.5	-0.5	46	49	50	50	49	47
Hungary	2.2	3.4	4.8	5.7	6.5	7.2	-2.8	-2.9	-3.6	-3.0	-2.8	-3.0	80	81	81	80	80	79
Poland	-3.3	-3.0	-3.6	-4.0	-4.5	-4.5	-3.5	-3.5	-2.8	-2.5	-2.4	-2.5	52	53	51	51	50	49
Romania	-3.8	-4.1	-4.5	-4.7	-5.0	-5.0	-2.2	-2.2	-2.5	-2.3	-2.0	-2.0	40	40	39	38	37	37
Russia	4.2	2.2	-0.1	-1.7	-3.0	-3.9	-0.4	-1.2	-2.1	-2.3	-2.3	-2.3	9	10	11	12	13	14
Turkey	-6.4	-6.8	-7.0	-6.7	-6.2	-5.4	-2.0	-2.2	-2.7	-2.7	-3.0	-3.0	38	37	36	36	36	36
Nigeria	2.4	3.7	3.3	2.0	1.4	0.5	-2.8	-2.6	-2.8	-3.2	-2.7	-2.8	NA	NA	NA	NA	NA	NA
South Africa	-6.0	-5.6	-5.3	-4.5	-3.3	-3.0	-4.7	-5.0	-4.6	-4.2	-3.7	-3.5	40	42	42	42	41	41
Argentina	0.7	0.4	0.2	0.2	3.0	1.0	-2.4	-2.7	-2.9	-3.8	0.0	-0.5	39	40	42	44	42	40
Brazil	-2.4	-2.6	-2.7	-2.9	-3.0	-3.2	-2.6	-2.4	-2.2	-1.8	-2.0	-1.8	57	57	57	57	58	58
Mexico	-0.8	-1.6	-1.8	-2.5	-2.7	-2.7	-2.2	-2.1	-2.0	-2.0	-2.0	-2.0	40	38	38	38	37	37
Venezuela	5.0	4.8	6.0	6.2	5.5	5.7	-5.0	-4.0	-4.0	-4.8	-4.6	-4.5	42	44	42	43	44	44

Note: Fiscal deficit and debt figures for all countries are general government debt and deficits. We assume sovereign debt restructuring in Portugal in 2014, Italy, Spain and Ireland in 2015 and Greece in 2017. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€11.6bn). Source: Citi Research

Figure 10. Selected Countries — Changes in Economic Forecast from the Previous Month (Percentage Points), 2012-2014F

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Global			0.1	-0.1			0.1	0.2	0.1	0.1	-0.2	
<i>Based on PPP weights</i>				-0.1				0.1	0.1		-0.1	
Industrial Countries		0.1	0.1		-0.1	0.1		0.3	0.1		-0.5	-0.1
United States		0.3	0.1	-0.1	-0.4	0.1		0.3	0.5		-0.2	
Japan	0.4	0.6	0.5			0.3		-0.7			-1.7	-0.4
Euro Area	-0.1	0.1		-0.1	-0.2		0.1	1.2	0.8	0.1	0.1	
Canada	-0.1	-0.3	-0.1	-0.1	-0.1			-0.4	-0.4			
Australia	-0.1	-0.7	-0.1	-0.1		-0.2	-0.1	-0.1	0.1		-0.9	-0.1
New Zealand									0.1			
Germany			0.2		0.1	-0.2	0.2	0.8	1.1	0.1		0.1
France	-0.1			-0.1	-0.2	-0.1	-0.4	-0.3	-0.4	-0.2	0.1	0.2
Italy		-0.2	0.1		0.3	0.1				0.2	0.1	
Spain	0.1	0.2	-0.1		-0.8	-0.1	-0.1	0.1	-0.4	0.1	0.1	
Greece	1.1	0.9	0.3			0.1	0.2	0.2	0.2	0.8	1.0	0.1
Ireland	0.6	0.1	0.5	0.6			-0.5	-0.8	-0.2	0.5	0.6	0.7
Portugal	0.2	0.9	-0.4								-0.2	-0.5
Netherlands	0.1		0.1	-0.1	-0.2		-0.4	0.1		-0.1	-0.4	-0.1
Belgium				-0.1	-0.3		-0.2	-1.0	-1.7		0.3	0.3
Denmark	-0.5	-0.1	0.1	-0.1	-0.2	-0.2	0.3	-0.4				
Norway				-0.1						0.4	-0.8	-0.7
Sweden	0.1	-0.6	0.2		-0.2		0.5	0.6	0.7	-0.2	-0.3	-0.8
Switzerland	-0.1	0.5	0.6		0.5	0.3	-0.3	-0.5	-0.3		0.2	0.3
United Kingdom	0.2	-0.4	-0.3		0.4	0.2	0.2	-0.7	-0.7	0.5	-1.9	-0.8
Emerging Markets		-0.1					0.2		0.1	0.1	0.1	0.1
China	0.1			-0.1								
Taiwan	0.1			-0.1		0.7					0.4	
India				0.5	0.5		-0.3	-0.7	-0.5			
Indonesia				-0.1			-0.2	-0.3		0.3		
Korea	-0.2	-0.2	0.1	-0.1	-0.1	-0.1	0.8	0.7	0.8	0.6	-0.2	-0.2
Czech Republic	0.1	-0.2			-0.4	0.2	-0.4	-0.4	-2.2	-1.6	0.1	
Hungary	-0.4	-0.1		-0.1	-1.3	-0.3	0.9	1.7	2.7			-0.4
Poland	-0.2				-0.1		0.3	0.9	1.1			
Romania	-0.4		0.1	-0.1	-0.2			0.1		0.2		
Russia	-0.1	-0.2	-0.1		-0.3	-0.1	-0.8	-1.1	-1.0	-0.3		0.3
Turkey				-0.3	0.1	1.0	0.6	0.2	0.1	0.5	0.5	
Nigeria		0.3			-0.6	-0.7	0.2	0.3	0.3	0.1	-0.5	-0.2
South Africa	0.2	0.3	-0.3	0.1	0.4		-0.1					
Argentina	-0.4			0.1	0.7		-0.1					
Brazil	-0.5	-0.8	0.2		0.8	0.1	-0.3	-0.1	-0.1			-0.1
Mexico				-0.1	-0.3	0.1	-0.4	-0.7	-0.6			
Venezuela	0.2	-1.0	-1.0	-0.1	1.9	-0.9	-0.4	-0.3	-0.1			

Source: Citi Research

Figure 11. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent), 2012-2017F

	10-Year Yields						Exchange Rates Versus U.S. Dollar*						Exchange Rate Versus Euro					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Industrial Countries																		
United States	1.80	2.10	2.80	3.25	3.50	3.75	NA	NA	NA	NA	NA	NA	1.28	1.33	1.31	1.32	1.35	1.38
Japan	0.85	0.91	1.00	1.38	1.50	1.63	81	95	92	88	86	83	104	126	120	117	116	115
Euro Area	1.57	1.59	1.44	1.50	2.00	2.50	1.28	1.33	1.31	1.32	1.35	1.38	NA	NA	NA	NA	NA	NA
Canada	1.87	2.33	3.24	3.35	3.50	3.75	1.00	0.97	0.97	0.97	0.96	0.95	1.28	1.30	1.27	1.27	1.30	1.32
Australia	3.28	3.16	3.90	4.20	5.00	5.15	1.03	1.03	0.98	0.95	0.94	0.92	1.24	1.29	1.33	1.39	1.44	1.50
New Zealand	3.61	3.66	4.20	4.60	5.30	5.40	0.82	0.83	0.76	0.71	0.69	0.67	1.57	1.60	1.73	1.86	1.96	2.06
Germany	1.57	1.59	1.44	1.50	2.00	2.50												
France	2.54	2.36	2.34	2.70	2.80	3.00												
Italy	5.49	4.79	4.94	5.50	5.00	5.00												
Spain	5.88	5.24	5.19	5.50	5.00	5.00												
Netherlands	1.95	1.90	1.74	1.70	2.20	2.70												
Belgium	2.57	2.46	2.44	2.80	3.00	3.20												
Denmark	1.51	1.55	1.49	1.65	2.25	2.75	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.15	2.34	2.24	2.25	2.75	3.25	5.81	5.55	5.57	5.49	5.36	5.22	7.45	7.40	7.28	7.24	7.23	7.22
Sweden	1.59	1.62	1.54	1.65	2.25	2.75	6.73	6.43	6.45	6.37	6.23	6.09	8.63	8.56	8.43	8.40	8.41	8.42
Switzerland	0.45	0.58	0.55	0.59	0.93	1.27	0.94	0.92	0.97	0.99	0.97	0.94	1.20	1.22	1.27	1.30	1.30	1.31
United Kingdom	1.85	1.90	1.75	1.75	2.50	3.00	1.59	1.61	1.62	1.65	1.69	1.73	0.81	0.83	0.81	0.80	0.80	0.80
Emerging Markets																		
China	3.33	3.58	3.83	4.08	4.21	4.33	6.31	6.13	6.07	6.05	6.06	6.06	8.11	8.16	7.93	7.98	8.18	8.38
Taiwan	1.21	1.24	1.36	1.50	1.70	2.00	29.57	28.59	28.30	28.20	28.20	28.20	38.03	38.10	36.99	37.18	38.09	39.00
India	8.25	8.25	8.25	8.25	8.25	8.25	53.38	53.68	54.33	53.64	52.14	50.64	68.65	71.54	71.00	70.72	70.43	70.04
Indonesia	5.90	5.73	6.10	6.30	6.60	6.80	9361	9845	9708	9629	9576	9523	12038	13122	12686	12696	12935	13170
Korea	3.24	2.89	3.76	4.48	5.00	5.15	1127	1035	1007	994	991	989	1449	1380	1316	1310	1339	1368
Czech Republic	2.75	2.17	2.93	3.57	3.80	3.80	19.5	19.5	19.4	18.5	17.4	16.3	25.1	26.0	25.4	24.4	23.5	22.5
Hungary	7.91	6.45	6.20	5.89	5.60	5.65	225	227	225	219	211	203	289	303	293	288	285	281
Poland	5.05	4.79	5.19	5.40	5.34	5.32	3.25	3.19	3.09	2.96	2.89	2.82	4.18	4.25	4.04	3.90	3.90	3.90
Romania	NA	NA	NA	NA	NA	NA	3.46	3.19	3.21	3.15	3.05	2.97	4.45	4.25	4.20	4.16	4.12	4.11
Russia	NA	NA	NA	NA	NA	NA	31.1	30.8	32.5	32.5	31.5	30.5	40.0	41.0	42.5	42.8	42.6	42.2
Turkey	NA	NA	NA	NA	NA	NA	1.80	1.82	1.88	1.90	1.91	1.91	2.32	2.42	2.46	2.51	2.58	2.64
Nigeria	NA	NA	NA	NA	NA	NA	159	161	164	168	171	175	204	214	214	222	231	242
South Africa	7.15	7.19	8.15	9.15	9.20	9.25	8.21	9.03	9.36	9.59	9.74	9.89	10.56	12.04	12.24	12.64	13.15	13.67
Argentina	NA	NA	NA	NA	NA	NA	4.54	5.46	6.74	8.72	13.45	18.82	5.84	7.28	8.80	11.50	18.16	26.03
Brazil	9.31	7.96	8.39	8.66	8.25	8.00	1.95	2.07	2.07	2.00	1.92	1.84	2.51	2.76	2.70	2.64	2.59	2.54
Mexico	5.70	5.96	6.76	7.22	7.51	7.95	13.2	12.4	12.5	12.6	12.8	12.9	16.9	16.6	16.3	16.6	17.2	17.9
Venezuela	11.40	11.55	11.85	15.50	15.50	15.50	4.29	5.58	6.50	9.75	10.50	12.71	5.52	7.44	8.49	12.86	14.18	17.57

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

Figure 12. Short Rates (End of Period), as of 23 January 2013 (Percent)

	Current	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Euro Area	0.75	0.75	0.50	0.25	0.25	0.25	0.25
Canada	1.00	1.00	1.00	1.00	1.50	1.75	2.00
Australia	3.00	2.75	2.50	2.50	2.50	2.50	2.75
New Zealand	2.50	2.50	2.50	2.50	2.50	2.50	3.00
Denmark	0.20	0.20	0.05	0.05	0.15	0.15	0.25
Norway	1.50	1.50	1.50	1.50	1.75	2.00	2.00
Sweden	1.00	0.75	0.75	0.75	0.75	0.75	1.00
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	0.50
China	3.00	3.00	3.00	3.00	3.25	3.50	3.50

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

Figure 13. 10-Year Yield Forecasts (Period Average), as of 23 January 2013 (Percent)

	Current	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14
United States	1.82	1.80	1.95	2.20	2.50	2.65	2.90
Japan	0.73	0.80	0.95	0.85	1.05	1.05	0.95
Euro area (Germany)	1.55	1.55	1.55	1.75	1.50	1.25	1.50
Canada	1.91	1.90	2.10	2.35	2.95	3.05	3.30
Australia	3.40	3.20	3.00	3.15	3.30	3.50	3.85
New Zealand	3.50	3.50	3.60	3.75	3.80	4.00	4.30
Denmark	1.61	1.50	1.75	1.50	1.30	1.55	1.45
Norway	2.40	2.30	2.50	2.30	2.05	2.35	2.25
Sweden	1.78	1.55	1.80	1.55	1.35	1.60	1.55
Switzerland	0.64	0.57	0.66	0.55	0.44	0.55	0.6
United Kingdom	2.00	1.90	1.80	2.00	1.80	1.65	1.80

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

Figure 14. 10-Year Yield Spreads (Period Average), as of 23 January 2013

	Spread vs. US\$						Spread vs. Germany					
	Current	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	Current	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14
United States	NA	NA	NA	NA	NA	NA	28	26	41	46	102	142
Japan	-103	-86	-111	-116	-147	-172	-75	-60	-70	-70	-45	-30
Euro Area	-28	-26	-41	-46	-102	-142	NA	NA	NA	NA	NA	NA
Canada	9	10	15	15	46	41	37	36	56	61	147	182
Australia	160	142	106	96	81	86	188	168	147	142	183	228
New Zealand	170	172	167	157	132	137	198	198	208	204	234	279
France	30	34	29	34	-2	-42	57	60	70	80	100	100
Italy	239	254	309	229	273	233	266	280	350	275	375	375
Spain	330	334	359	254	298	258	357	360	400	300	400	400
Netherlands	-15	-11	-16	-11	-52	-92	12	15	25	35	50	50
Belgium	41	44	39	34	18	-22	68	70	80	80	120	120
Austria	3	4	-11	-11	-67	-92	30	30	30	35	35	50
Finland	-13	-11	-26	-26	-82	-102	14	15	15	20	20	40
Ireland	230	224	209	204	148	208	257	250	250	250	250	350
Denmark	-21	-36	-46	-46	-102	-137	6	-10	-5	0	0	5
Norway	58	44	34	29	-22	-62	85	70	75	75	80	80
Sweden	-4	-26	-41	-41	-97	-132	23	0.0	0.0	5.0	5.0	10.0
Switzerland	-118	-121	-139	-155	-197	-223	-91	-95	-98	-109	-95	-81
United Kingdom	18	10	-15	-20	-71	-101	45	36	26	26	31	41

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

Source: Citi Research

Figure 15. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as of 23 January 2013

Country	Current Rate (%)	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Total Cumulative Rate Moves Expected
Thailand	2.75	0	25	50	25	0	100
China	3.00	0	0	0	25	25	50
Indonesia	4.00	0	0	25	25	0	50
Israel	1.75	0	0	0	25	25	50
Chile	5.00	0	-50	0	0	75	25
Korea	2.75	-25	0	0	25	25	25
Romania	5.25	0	0	0	0	25	25
Turkey	5.50	0	-25	-25	0	75	25
Czech	0.05	0	0	0	0	0	0
Mexico	4.50	0	0	0	0	0	0
Philippines	3.50	0	0	0	0	0	0
South Africa	5.00	0	0	0	0	0	0
Russia	8.25	0	0	-25	-25	0	-50
Brazil	7.25	-25	-50	0	0	0	-75
Hungary	5.75	-75	0	0	0	0	-75
India	8.00	-50	-25	0	0	0	-75
Poland	4.00	-25	-25	-25	0	0	-75

Source: Citi Research

Figure 16. Foreign Exchange Forecasts (End of Period), as of 23 January 2013

	vs. USD						vs. EUR					
	Current	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Current	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
United States	NA	NA	NA	NA	NA	NA	1.33	1.35	1.34	1.32	1.32	1.31
Japan	90	94	95	96	95	94	120	127	127	127	125	123
Euro Area	1.33	1.35	1.34	1.32	1.32	1.31	NA	NA	NA	NA	NA	NA
Canada	0.99	0.98	0.97	0.97	0.97	0.97	1.32	1.32	1.30	1.28	1.28	1.27
Australia	1.05	1.06	1.04	1.02	1.01	1.00	1.27	1.27	1.28	1.29	1.30	1.31
New Zealand	0.84	0.85	0.84	0.83	0.81	0.79	1.60	1.60	1.59	1.59	1.62	1.66
Norway	5.59	5.52	5.54	5.56	5.57	5.57	7.45	7.47	7.42	7.36	7.33	7.31
Sweden	6.50	6.40	6.42	6.44	6.44	6.45	8.67	8.67	8.59	8.51	8.48	8.46
Switzerland	0.93	0.92	0.91	0.91	0.92	0.94	1.24	1.24	1.22	1.20	1.22	1.24
United Kingdom	1.59	1.60	1.61	1.61	1.61	1.62	0.84	0.84	0.83	0.82	0.82	0.81
China	6.22	6.17	6.14	6.11	6.09	6.08	8.3	8.3	8.2	8.1	8.0	8.0
India	53.7	53.2	53.5	53.9	54.1	54.2	71.6	72.0	71.7	71.3	71.2	71.1
Korea	1057	1047	1039	1031	1024	1017	1410	1416	1390	1365	1349	1336
Poland	3.10	3.12	3.18	3.24	3.22	3.17	4.14	4.22	4.25	4.29	4.24	4.16
Russia	30.3	29.6	30.5	31.3	31.7	32.0	40.4	40.1	40.8	41.4	41.8	42.1
South Africa	8.91	8.89	8.99	9.08	9.16	9.24	11.89	12.03	12.03	12.01	12.07	12.14
Turkey	1.76	1.77	1.80	1.84	1.86	1.87	2.35	2.39	2.41	2.44	2.45	2.45
Brazil	2.04	2.04	2.07	2.09	2.09	2.08	2.73	2.76	2.77	2.77	2.75	2.73
Mexico	12.6	12.4	12.4	12.5	12.5	12.5	16.8	16.7	16.6	16.5	16.5	16.4

Source: Citi Research

Figure 17. Foreign Exchange Forecasts (End of Period), as of 23 January 2013

	vs. JPY					
	Current	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14
United States	90	94	95	96	95	94
Japan	NA	NA	NA	NA	NA	NA
Euro Area	120	127	127	127	125	123
Canada	91	96	97	99	98	97
Australia	94	99	99	98	96	94
New Zealand	75.1	79.2	79.4	79.6	77.2	74.2
Norway	16.1	16.9	17.1	17.2	17.1	16.8
Sweden	13.8	14.6	14.7	14.9	14.7	14.6
Switzerland	96	102	104	105	103	100
United Kingdom	143	150	152	154	153	152
China	14	15	15	16	16	15
India	1.67	1.76	1.77	1.78	1.76	1.73
Korea	11.75	11.19	10.98	10.77	10.78	10.84
Poland	29.0	30.0	29.8	29.5	29.5	29.6
Russia	3.0	3.2	3.1	3.1	3.0	2.9
South Africa	10.1	10.5	10.5	10.5	10.4	10.2
Turkey	51.1	52.9	52.4	52.0	51.1	50.2
Brazil	44.0	45.8	45.8	45.7	45.4	45.1
Mexico	7.1	7.6	7.6	7.7	7.6	7.5

Source: Citi Research

Country Commentary

United States

Robert V. DiClemente
(1-212) 816-7942
robert.diclemente@citi.com

Peter D'Antonio
(1-212) 816-9889
peter.dantonio@citi.com

Steven Wieting
(1-212) 816-7148
steven.wieting@citi.com

We have raised our forecasts for economic growth for the four quarters of 2013 from 2% to 2.4%, reflecting a combination of surprising strength in private demand, more favourable financial conditions than anticipated and slightly less fiscal drag. Also, the rebound in housing markets looks increasingly durable and is expected to provide broader support to expansion, barring new shocks. Although lawmakers have successfully averted the fiscal cliff, the government lacks immediate borrowing and spending authority and still has no plan for longer-term consolidation. Our outlook anticipates small-scale agreements yielding incremental deficit reduction and overall drag this year near 1%. Chances of timely reforms have dimmed.

The Federal Reserve's aggressive forward guidance and open-ended bond-buying have yielded the longest stretch of accommodative financial conditions since the late-1990s. Near-term restraint on growth from higher payroll taxes will likely sustain asset purchases at an elevated pace through the first half. Beyond that, strengthening job growth and concern about exit costs may slow the pace of QE in the second half of this year. Forecasts for unemployment and inflation suggest no change in policy rates through the 2014 forecast horizon.

Slower global growth and seasonal biases have eased inflation in recent months, enhancing policy flexibility for now. We expect relatively stable inflation this year and modest cyclical pressures thereafter as global growth picks up somewhat and wage costs rise with sustained improvement in job markets.

Figure 18. United States — Economic Forecasts, 2012-2014F

					2012		2013				2014	
		2012F	2013F	2014F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
GDP	SAAR				3.1%	0.7%	1.6%	1.9%	2.9%	3.1%	3.0%	3.1%
	YoY	2.2%	1.9%	3.1%	2.6	1.8	1.7	1.8	1.8	2.4	2.7	3.0
Domestic Demand	SAAR				1.9	1.5	1.2	2.0	3.1	3.2	3.1	3.2
	YoY	2.0	1.9	3.1	1.9	1.8	1.5	1.7	2.0	2.4	2.8	3.1
Consumption	SAAR				1.6	2.4	1.2	1.9	3.0	3.1	2.9	3.0
	YoY	1.9	1.9	3.0	1.9	2.0	1.7	1.7	2.1	2.3	2.7	3.0
Business Investment	SAAR				-1.8	1.9	2.1	3.8	5.9	6.2	5.9	5.7
	YoY	7.2	2.7	6.0	4.6	2.7	1.4	1.5	3.4	4.5	5.5	6.0
Housing Investment	SAAR				13.5	12.6	14.5	21.1	22.6	22.0	20.1	18.6
	YoY	11.8	16.4	19.9	13.6	13.7	12.2	15.4	17.6	20.0	21.4	20.8
Government	SAAR				3.9	-2.8	-0.9	-0.8	-0.6	-0.5	-0.3	-0.1
	YoY	-1.4	-0.6	-0.3	-0.5	-0.7	-0.2	0.2	-1.3	-0.7	-0.6	-0.4
Exports	SAAR				1.9	-5.5	3.5	3.6	4.3	4.6	5.0	5.1
	YoY	3.2	1.9	4.9	3.2	1.4	1.2	0.8	1.4	4.0	4.4	4.8
Imports	SAAR				-0.6	-1.5	3.5	3.7	4.8	4.9	5.0	4.9
	YoY	2.6	2.3	4.8	2.5	0.9	1.0	1.2	2.6	4.2	4.6	4.9
PCE Deflator	YoY	1.7	1.5	2.1	1.5	1.5	1.2	1.5	1.6	1.7	2.0	2.1
Core PCE Deflator	YoY	1.7	1.4	1.9	1.6	1.5	1.3	1.2	1.4	1.6	1.8	1.9
Unemployment Rate	%	8.1	7.7	7.1	8.1	7.8	7.8	7.8	7.8	7.5	7.3	7.2
Federal Gov't Balance (Fiscal Year)	\$Bn	-1089	-875	-650								
	% of GDP	-7.0	-5.3	-3.7								
General Gov't Balance (Cal Year)	% of GDP	-8.3	-7.2	-5.0								
Federal Debt	% of GDP	72	75	76								
General Gov't Debt	% of GDP	106	110	112								
Current Account	US\$bn	-469	-435	-440	-430	-439	-434	-431	-437	-438	-439	-439
	% of GDP	-3.0	-2.7	-2.6	-2.7	-2.8	-2.7	-2.7	-2.7	-2.7	-2.6	-2.6
S&P 500 Profits (US\$ Per Share)	YoY	5.7	6.4	5.0	1.4	5.7	5.0	6.3	6.0	8.2	5.7	5.2

Notes: F Citi forecast. E Citi Estimate. YoY Year-to-year percent change. SAAR Seasonally adjusted annual rate

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, I/B/E/S, Treasury Department, Wall Street Journal and Citi Research

Japan

Kiichi Murashima
(81-3) 6270 4980
kiichi.murashima@citi.com

Naoki Iizuka
(81-3) 6270 4997
naoki.iizuka@citi.com

We are revising up GDP growth forecasts for 2013 to +1.3% from +0.7% as of late November, reflecting the recent yen depreciation and the large economic stimulus package, centred on public works spending, announced earlier this month. Financial markets have been pricing in PM Abe's economic policies, especially his eye-catching statements about monetary policy. In particular, the yen depreciated from Y80/USD in mid-November when former PM Noda decided to dissolve the Lower House to Y90 now. A 10% yen depreciation against dollar pushes up GDP growth by around 0.3% over the following year, based upon the macroeconomic model. Moreover, public works spending included in the economic stimulus package (¥5.2 trillion) was much larger than we had expected in November (¥2 trillion).

The economy currently shows increasing signs of a cyclical pickup. The projection indexes for industrial production, based upon corporate plans, point to a continued rebound in December and January. Domestic passenger car sales also rose modestly in recent months after sharp declines as the positive impact from the government's subsidy for eco-car purchases faded. We believe that the latest economic downturn (which started last spring) troughed in November 2012. Both industrial production and GDP likely will resume positive growth in the current quarter. In this context, we currently expect recurring profits of listed companies (excluding financials) to rise by around 25% in fiscal 2013 and this would likely start to push up private capex.

A nomination/appointment process of the new BoJ leadership (Governor and two deputy governors) likely will start in mid-February. At present, there remain uncertainties over who will replace Mr. Shirakawa, but whoever becomes the next governor, the BoJ appears likely to implement asset purchases more aggressively, for example by extending the maximum maturity of JGBs it purchases (3 years currently). We expect the new governor to take a new easing step at his very first meeting on April 26. This would probably lead to a further depreciation of the yen.

Figure 19. Japan — Economic Forecasts, 2012F-14F

		2012F	2013F	2014F	2012		2013F				2014F	
					3Q	4QF	1Q	2Q	3Q	4Q	1Q	2Q
Real GDP	YoY	2.0%	1.3%	1.2%	0.5%	0.3%	-0.7%	0.3%	2.2%	3.1%	3.2%	1.0%
	SAAR				-3.5	-0.5	1.5	3.9	4.0	3.1	1.7	-4.5
Domestic Demand	YoY	2.8	1.4	0.3	2.0	1.1	0.1	0.9	1.9	2.6	2.6	-0.1
	SAAR				-0.8	-0.1	0.7	4.0	3.2	2.7	0.5	-6.3
Private Consumption	YoY	2.4	0.9	0.6	1.3	1.2	0.2	0.5	1.5	1.6	2.4	0.0
	SAAR				-1.7	1.6	0.4	1.8	2.0	2.2	3.6	-7.4
Business Investment	YoY	2.0	-0.2	3.7	1.7	-7.0	-4.2	-3.2	1.7	5.2	6.1	4.3
	SAAR				-11.3	-7.3	2.1	4.7	7.7	6.2	5.8	-2.3
Housing Investment	YoY	2.1	7.2	-3.2	1.2	2.6	6.3	6.8	8.3	7.5	2.8	-2.6
Public Investment	YoY	12.1	8.2	-12.2	13.9	19.0	7.5	10.0	8.5	7.0	-3.0	-15.0
Exports	YoY	0.3	0.0	4.5	-5.0	-3.2	-4.5	-4.3	3.0	6.5	5.5	5.5
	SAAR				-18.9	-8.0	7.9	4.1	8.9	5.2	3.9	4.1
Imports	YoY	5.6	1.1	-0.9	4.7	2.1	0.3	-0.3	1.1	3.4	1.9	-1.4
	SAAR				-1.8	-6.1	2.2	5.0	3.6	2.7	-3.5	-7.7
CPI	YoY	0.0	-0.3	1.9	-0.3	-0.2	-0.8	-0.5	-0.1	0.1	0.2	2.5
Core CPI	YoY	-0.1	-0.1	1.9	-0.2	0.0	-0.4	-0.2	-0.1	0.1	0.2	2.5
Nominal GDP	YoY	1.1	0.6	2.1	-0.3	-0.3	-1.4	-0.4	1.6	2.7	2.9	2.3
Current Account	¥ tn	4.6	2.1	7.6	3.7	2.7	2.0	1.0	2.3	3.2	5.1	7.8
	% of GDP	1.0	0.4	1.6	0.8	0.6	0.4	0.2	0.5	0.7	1.0	1.6
Unemployment Rate	%	4.4	4.1	4.0	4.2	4.2	4.2	4.1	4.0	4.0	4.0	4.0
Industrial Production	YoY	-0.9	0.9	1.7	-4.6	-6.3	-4.3	-1.4	3.4	6.4	3.8	1.3
Corporate Profits (Fiscal Year)	YoY	5.0	25.0	-5.0								
General Govt. Balance (Fiscal Year)	% of GDP	-10.7	-9.8	-7.0								
General Govt Debt	% of GDP	237	245	246								

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

Jürgen Michels
(44-20) 7986-3294
jürgen.michels@citi.com

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

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

Euro Area

We are revising up our 2013 GDP growth forecast marginally, from -0.7% previously to -0.6%. Data since our November forecast have been mixed, with the 4Q activity data mostly below our forecasts but better sentiment guides. With ongoing private sector deleveraging and fiscal tightening, we keep our 2014 GDP forecast at -0.4%. Note we assume Greece will leave the euro area in the next 12 to 18 months, and hence our 2014 forecast excludes Greece from the EMU totals. The ECB's OMT backstop has greatly cut risks of EMU break-up. But, the ECB does not aim to totally eliminate spreads between periphery and core countries. The European leaders agreed in December to go ahead with the Single Supervision Mechanism (SSM) for banks and to introduce a Single Resolution Mechanism, but large divergences on how to fund such a mechanism remain. The December Summit also failed to deliver a road-map for EMU's future, which is now scheduled for June. The delayed decision on the Cyprus bailout also highlights ongoing difficulties in dealing with excesses of private and public sector debt in periphery countries.

The ECB expects that an improvement in financing conditions will lead to a recovery in growth in 2013; therefore, unless sentiment indicators fall sharply, a rate cut before 2Q looks unlikely. However, with signs of prolonged economic weakness and reacting to a stronger euro, which creates additional downside risks to inflation, we expect the ECB to cut the refi-rate by 25bp in 2Q and by another 25bp to 0.25% by the end of the year. In our view, the deposit rate will remain unchanged in 2Q, but we see a decent chance of a negative deposit rate (-0.25%) by year-end. We expect that mainly core country banks will use the early repayment option of the 3Y LTROs, probably leading to a reduction in excess liquidity between €200bn and €250bn by the end of 1Q. However, ON rates probably will not be affected much.

Figure 20. Euro Area — Economic Forecasts, 2012-14F

		2012F	2013F	2014F	2012F		2013F				2014F	
					3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	-0.5%	-0.6%	-0.4%	-0.6%	-0.7%	-0.9%	-0.7%	-0.7%	-0.3%	-0.4%	-0.5%
	SAAR				-0.2	-1.9	-0.7	0.0	-0.2	-0.2	-1.3	-0.4
Final Domestic Demand	YoY	-1.4	-1.1	-0.4	-1.6	-1.6	-1.6	-1.0	-1.1	-0.7	-0.7	-0.6
Private Consumption	YoY	-1.1	-0.7	-0.1	-1.3	-1.1	-1.1	-0.7	-0.8	-0.4	-0.3	-0.2
Government Consumption	YoY	-0.2	-0.9	-0.4	-0.1	-0.4	-0.7	-0.9	-1.0	-1.0	-0.8	-0.6
Fixed Investment	YoY	-3.7	-2.4	-1.5	-4.2	-4.7	-3.9	-2.3	-1.9	-1.3	-1.6	-1.9
— Business Equipment	YoY	-4.5	-3.0	-2.5	-5.7	-6.2	-5.2	-3.0	-2.2	-1.5	-2.3	-3.1
— Construction	YoY	-3.0	-1.6	-0.6	-2.9	-3.0	-2.5	-1.4	-1.3	-1.3	-1.2	-1.0
Stocks (Contrib. to Y/Y GDP Growth)		-0.4	-0.2	-0.1	-0.5	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1
Exports	YoY	2.8	2.0	0.6	2.9	2.5	2.7	1.8	1.4	2.1	1.1	0.4
Imports	YoY	-0.7	0.3	0.1	-0.9	-0.2	0.4	0.1	0.0	0.7	-0.1	-0.4
CPI	YoY	2.5	1.8	1.5	2.5	2.3	1.9	1.8	1.8	1.6	1.5	1.5
Core CPI	YoY	1.5	1.4	1.2	1.6	1.5	1.4	1.2	1.5	1.3	1.3	1.3
CPI Ex Energy and Food	YoY	1.8	1.4	1.3	1.7	1.6	1.3	1.4	1.6	1.4	1.5	1.4
Unemployment Rate	YoY	11.4	12.0	12.3	11.5	11.8	11.9	12.0	12.1	12.2	12.3	12.3
Current Account Balance	EUR bn	94.9	227.9	203.4								
	% of GDP	1.0	2.4	2.1								
General Government Balance	EUR bn	-308.0	-267.9	-232.8								
	% of GDP	-3.2	-2.8	-2.4								
Primary Balance	% of GDP	-0.1	0.3	0.7								
General Government Debt	EUR bn	8,928.8	9,310.2	9,256.7								
	% of GDP	94.0	96.8	95.3								
Gross Operating Surplus	YoY	-0.1	0.0	0.2								

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

Jürgen Michels
(44-20) 7986-3294
juergen.michels@citi.com

Germany

The German economy enters the election year 2013 on a weak footing, as GDP fell by a larger-than-expected 0.5% QQ in 4Q 2012. However, with higher-than-expected business expectations and stronger non-EU demand, we are leaving our GDP forecast for 2013 unchanged at 0.5% but revise up our 2014 forecast from 0.3% to 0.5%. We expect that growth will benefit from a modest recovery in exports (despite the strong euro), gains in consumption and construction, plus modest fiscal easing (between ¼% and ½% of GDP in 2013). A political stalemate is likely until the September General Election. We expect that Angela Merkel will stay as Chancellor, but probably with a different coalition partner.

France

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

Since our last forecasting round in November, the French economy has seen a slight cyclical deterioration, vindicating our reservations about the country's economic prospects. At the same time, however, the government launched the Competitiveness Pact, and the crucial labour market reform negotiations ended with a deal that we believe will have some positive impact on business confidence. Hence, we are leaving our GDP forecast for 2013 unchanged at -0.2%, although we view the balance of risks as tilted slightly to the upside. Meanwhile, the government will likely find it impossible to meet the target of a budget deficit of 3% of GDP in 2013. Note that the 2% implicit GDP growth baseline for 2014 looks overly optimistic, especially given the amount of extra expenditure savings (worth €10bn) that the government has committed to delivering to finance the corporate payroll tax deduction.

Italy

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

Recent activity indicators suggest growth decelerated significantly in 4Q 12 and the ongoing recession is unlikely to end any time soon. The size of the 2013 fiscal drag is likely to be less than half compared to 2012, but still substantial at around 1½% of GDP. Uncertainty stemming from the elections — unlikely to give a clear majority to the leading centre-left party in both houses of parliament — may weigh on investment decisions. Small overshooting of fiscal deficit targets and falling GDP are likely to push public debt close to 130% of GDP this year. In this environment, we expect Italy to request external financial assistance (probably an ESM and OMT) sometime in 2013. Some form of debt restructuring (via maturity extensions and coupon reductions) may be inevitable in two or three years' time, in our view, when it will become clear that austerity alone cannot restore fiscal sustainability.

Figure 21. Germany, France and Italy — Economic Forecasts, 2012-14F

		Germany			France			Italy		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	0.9%	0.5%	0.5%	0.0%	-0.2%	0.2%	-2.1%	-1.4%	-1.4%
Final Domestic Demand	YoY	0.3	1.0	1.1	0.3	-0.1	0.2	-4.4	-2.8	-2.1
Private Consumption	YoY	0.6	1.1	0.7	-0.1	-0.1	0.1	-4.2	-2.6	-1.0
Fixed Investment	YoY	-1.6	0.8	2.8	0.3	-0.7	0.4	-9.1	-5.7	-7.5
Exports	YoY	4.5	2.2	1.4	2.5	1.5	0.6	1.6	1.1	-1.9
Imports	YoY	2.5	2.8	2.3	0.2	0.6	0.6	-7.9	-4.3	-4.7
CPI	YoY	2.0	2.0	2.3	2.2	1.3	1.7	3.3	2.1	1.3
Unemployment Rate	%	5.5	6.0	6.1	9.9	10.4	10.1	10.7	11.9	12.4
Current Account	€bn	165.9	156.9	143.9	-44.4	-27.8	-12.2	-19.7	-14.1	-10.2
	% of GDP	6.3	5.8	5.2	-2.2	-1.3	-0.6	-1.3	-0.9	-0.7
General Govt. Balance	€bn	1.9	-7.4	-12.1	-91.5	-74.9	-59.9	-43.7	-38.3	-40.3
	% of GDP	0.1	-0.3	-0.4	-4.5	-3.6	-2.8	-2.8	-2.5	-2.6
Primary Balance	% of GDP	2.0	1.1	0.7	-2.3	-1.5	-0.7	2.4	2.7	2.8
General Govt. Debt	% of GDP	83.2	82.2	81.5	91.3	95.4	96.8	126.4	129.8	133.5
Gross Trading Profits	YoY	-1.0	-1.9	-1.4	0.0	2.0	4.0	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 and Citi Research

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

Spain

Q4 GDP was probably not as weak as we expected, but the recent dive in domestic indicators suggests the recession is likely to remain severe in 2013. The impact of fiscal austerity will likely worsen, as the saving rate has now fallen well below its long-term average. Rising unemployment and non-performing loans may lead to additional bank recapitalisation needs, probably in 2014. Recession will also make it very difficult to hit the fiscal deficit targets for 2013-14, after the probable overshoot in 2012. We expect Spain to enter a precautionary ESM programme during 2013 and, like Italy, we think that some form of debt restructuring is likely eventually.

Greece

Although the 2012 public deficit was broadly in line with the target and another PSI (through a buyback), Greece's fiscal position remains unsustainable, in our view. With the 2013 Budget envisaging fiscal tightening measures worth 5% of GDP in 2013 and another 2.2% of GDP in 2014, we think 2013 GDP will fall by about the same as in 2012, lifting the debt ratio above 180% of GDP in 2013 (despite haircuts for a total of 71pp of GDP in 2012). Only a major write-off of the euro area official loans would make the debt burden sustainable, in our view. Given that we judge this move as unlikely, we still expect that Greece will eventually leave the euro, probably in 2014.

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

Ireland

Recent data suggest that industrial production fell by about 8% QoQ in Q4, the biggest drop since data began 30 years ago, reflecting a big adverse effect from the "patent cliff" on some pharmaceutical products. Overall, we expect Q4 GDP fell by about 0.6% QoQ. We have, however, revised up our 2012 forecast to 0.5% (versus -0.1% in the last GEOS), reflecting recent upward revisions to earlier quarters. For 2013, we are edging up the GDP forecast by 0.1pp to 0.5%. Longer term, we believe Ireland needs some form of debt restructuring, via OSI or PSI or both.

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

Portugal

The 2013 Budget (envisaging cuts by 3.2pp of GDP) is likely to keep GDP falling this year, probably even faster than in 2012. Some tightening measures may be reversed by the Constitutional Court, suggesting the fiscal deficit target for 2013 (4.5% of GDP) might be missed excluding one-off measures. The public debt/GDP ratio will rise to about 135% in 2013, we expect, partly reflecting falling nominal GDP. We still expect Portugal will need additional bailout funds after the current programme ends in mid-2014, and another programme will probably be accompanied by some form of PSI and OSI.

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

Figure 22. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2012-14F

		Spain			Greece			Ireland			Portugal		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-1.4%	-2.2%	-2.0%	-6.1%	-6.5%	-11.5%	0.5%	0.5%	1.5%	-3.1%	-3.7%	-2.8%
Final Domestic Demand	YoY	-3.8	-4.8	-3.3	-9.6	-8.4	-12.7	-1.5	-1.2	-1.7	-6.8	-5.3	-3.0
Private Consumption	YoY	-1.8	-3.1	-1.1	-8.1	-6.9	-14.4	-1.4	-0.6	-0.8	-5.6	-4.7	-0.9
Fixed Investment	YoY	-8.9	-6.9	-7.9	-19.4	-15.0	-21.1	1.2	0.4	-3.3	-13.9	-9.0	-10.7
Exports	YoY	3.9	6.8	-1.6	-2.4	-0.5	-13.2	2.8	3.0	4.0	4.1	1.1	-2.5
Imports	YoY	-3.8	-1.0	-5.7	-12.7	-9.3	-17.4	0.3	1.5	1.7	-6.7	-2.4	-3.2
CPI	YoY	2.4	1.1	0.3	1.0	0.3	16.8	2.3	1.2	1.4	2.8	1.7	0.9
Unemployment Rate	%	25.1	26.9	27.9	24.4	28.8	34.8	15.0	15.7	16.3	15.3	17.5	19.5
Current Account	€bn	-16.7	14.6	26.2	-8.4	-5.9	4.1	7.4	9.6	11.6	-6.2	-2.3	-1.7
	% of GDP	-1.6	1.4	2.6	-4.3	-3.3	2.2	4.5	5.8	6.8	-3.7	-1.4	-1.0
General Govt. Balance	€bn	-85.2	-65.1	-58.9	-14.0	-11.0	-1.1	-12.8	-12.2	-8.2	-8.4	-8.4	-7.6
	% of GDP	-8.1	-6.3	-5.8	-7.2	-5.7	-1.4	-7.8	-7.3	-4.8	-5.0	-5.2	-4.8
Primary Balance	% of GDP	-4.1	-2.5	-1.6	-1.9	-1.4	-1.4	-3.9	-2.1	0.2	-0.6	-0.4	-0.4
General Govt. Debt	% of GDP	87.8	97.2	110.0	158.4	180.0	408.3	116.0	118.5	118.5	121.2	134.9	108.7

F Citi forecast. YoY Year-to-year growth rate. For Ireland we show the GDP deflator rather than the CPI, for Spain fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€11.6bn). Sources: ISTAT, INE, Haver Analytics, Eurostat and Citi Research

Jürgen Michels
(44-20) 7986-3294
juergen.michels@citi.com

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

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

Jaromir Sindel
(42 0) 233 061 485
jaromir.sindel@citi.com

Netherlands

The October VAT hike probably contributed to the return of the Netherlands into recession. With the ongoing rapid increase in unemployment — the jobless rate increased by 0.9 pp in 2H 2012 to 7.2% in December — and falling house prices (in 4Q by -7.2% YY), we expect domestic demand to contract further in 2013. However, recent data suggest that net exports will have a larger positive contribution to GDP growth in 2013. With a likely contraction in GDP in 2013, we doubt that the government will be able to reduce the deficit-to-GDP ratio below 3% as required under the EDP. Although the government is firmly committed to medium-term consolidation, we do not expect it to implement extra fiscal tightening for 2013.

Belgium

The central bank of Belgium revised down its 2012 GDP growth forecast to -0.2% in December, matching our forecast, confirming that the economy likely experienced a double dip in the second half of 2012. Although business confidence is rebounding from its recent lows, sizeable fiscal tightening continues to weigh on sentiment, dampening domestic demand. We envisage little change in underlying budgetary assumptions for 2013, and maintain our expectation that the economy will likely contract again, albeit modestly, posting a negative outcome of around -0.3%. Contingent liabilities for the banking system remain a key risk for debt metrics.

Slovakia

We cut our GDP forecast for 4Q12 contributing to a 0.1pp downward revision of 2012 average growth to 2.4%, down from 3.2% in 2011. This also implies lower growth in 2013 of 1%YoY, while we previously expected 1.3%. PM Robert Fico (SMER-SD) stressed his government remains committed to reducing the deficit from likely 5.1% of GDP in 2012 to close to 3% of GDP in 2013. While slower GDP growth represents a risk of a wider deficit, it should be manageable. Moreover, the ARDAL has pre-financed some 30% of gross borrowing requirements in 2013.

Slovenia

Our forecasts are roughly unchanged, with risks on both sides. Confidence indicators have recently improved, but November data showed a further deterioration. Nevertheless, the narrowing of the fiscal deficit has continued in 4Q12. However, we see a risk to our 2013 GDP forecast as it assumes calm politics and a functioning bad bank. This is, however, under question, because of the recent call by two coalition parties for the PM to resign. By contrast, we now see a slightly milder GDP fall in 2014.

Figure 23. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2012-2014F

		Netherlands			Belgium			Slovakia			Slovenia		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-1.0%	-0.9%	0.3%	-0.2%	-0.3%	0.3%	2.4%	1.0%	1.7%	-2.1%	-1.5%	-0.3%
Final Domestic Demand	YoY	-1.6	-1.3	0.1	-0.6	0.1	0.6	-0.6	0.4	1.2	-3.5	-3.2	-0.6
Public Consumption	YoY	0.7	0.1	0.0	0.1	0.0	0.3	-0.2	-0.7	0.0	-2.5	-4.7	-1.0
Private Consumption	YoY	-1.6	-1.6	0.2	-0.6	0.1	0.5	-0.3	0.1	0.5	-1.8	-2.5	-0.8
Investment (Ex Stocks)	YoY	-4.9	-2.8	-0.1	-0.1	0.3	1.4	-1.8	1.7	3.4	-8.5	-4.4	0.0
Exports	YoY	2.5	0.5	0.8	0.4	0.7	1.1	9.0	2.9	3.2	1.1	-0.3	0.6
Imports	YoY	2.2	-0.4	0.5	-0.1	0.6	1.4	3.6	3.2	2.5	-2.6	-3.5	0.2
CPI (Average)	YoY	2.5	2.6	1.7	2.8	1.6	1.9	3.6	3.0	2.5	2.6	2.3	2.2
Unemployment Rate	%	6.4	6.9	7.0	7.4	7.7	7.3	13.5	13.9	14.1	8.7	9.2	10.0
Current Account	% of GDP	9.7	9.7	8.7	-0.9	-0.7	-0.8	2.2	1.0	1.0	1.5	1.6	2.5
General Govt Balance	% of GDP	-3.9	-3.8	-3.8	-2.8	-2.4	-1.8	-5.1	-3.2	-3.0	-3.9	-3.3	-2.8
Primary Balance	% of GDP	-2.1	-2.0	-1.9	-0.4	0.3	0.9	-3.6	-1.7	-1.4	-1.8	-1.1	-0.5
General Govt Debt	% of GDP	70.0	73.2	75.9	110.0	115.8	115.3	52.1	53.5	54.4	53.0	57.3	60.3

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

UK

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

We recently cut our 2013 growth forecast from 0.8% to 0.4%⁷, and expect that the economy will have little or no growth coupled with sticky inflation, high current account deficit and an overshooting fiscal deficit. The economy faces persistent headwinds from private deleveraging, poor credit availability, structural export weakness and the EMU crisis, while fiscal drag is increasing this year. We expect that real GDP will not regain the prerecession peak (Q1-2008) until 2016. Inflation will remain sticky for some time, reflecting increases in external costs and non-market services such as university tuition fees, insurance costs, rents, rail fares and postal charges. The current account deficit is likely to stay high, with exports hit by weak demand for financial services and the lack of growth in Europe. Moreover, with low nominal GDP growth, government revenues are likely to undershoot, hence producing persistent deficit overshoots and a further rise in the debt/GDP ratio.

The response is likely to focus on monetary stimulus and tolerance for a weaker currency rather than fiscal stimulus. The government already has deferred much of the fiscal restraint previously planned for 2011 and 2012 and, with the rising public debt ratio, we expect the UK to lose its AAA rating with one or major agency this year. This downgrade will probably make it harder for the government to defer spending cuts further, and fiscal austerity will be an increasing headwind in 2013. We expect monetary loosening via further QE and, once the new BoE Governor is in place (mid-2013), probably also rate guidance to signal a long period of ultra-low policy rates and perhaps even a further rate cut from 0.5%. The Chancellor will probably also invite suggestions for changes to the inflation target, softening the 2% target to a 1-3% band in 2013 or 2014 to help allow a long period of loose monetary policy.

Figure 24. United Kingdom — Economic Forecasts, 2012-2014F

					2012F		2013F				2014F	
		2012F	2013F	2014F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	0.1%	0.4%	0.7%	0.1%	0.3%	0.5%	0.9%	0.0%	0.3%	0.4%	0.6%
	SAAR				4.0	-0.4	0.0	0.1	0.4	0.5	0.8	0.6
Domestic Demand (Incl. Inventories)	YoY	1.0	0.0	0.1	0.7	1.9	0.9	0.2	-0.2	-0.8	-0.3	0.1
	SAAR				1.8	2.4	-2.6	-0.7	0.2	0.1	-0.6	0.6
Consumption	YoY	0.7	0.9	0.9	1.3	0.7	0.8	1.0	0.7	1.0	0.6	0.6
	SAAR				1.6	-1.2	2.3	1.1	0.6	0.1	0.5	1.3
Investment	YoY	0.0	-3.0	0.0	-0.7	0.6	-1.4	-3.4	-3.4	-3.8	-2.6	0.6
	SAAR				-0.9	3.6	-5.7	-10.1	-0.6	1.7	-0.8	2.4
Exports	YoY	-0.6	3.1	4.7	1.3	-2.8	1.5	3.3	2.6	4.9	3.9	4.2
	SAAR				5.1	-5.0	11.3	2.5	2.4	3.8	7.0	3.5
Imports	YoY	2.4	1.7	2.9	2.8	2.1	2.7	0.9	1.8	1.4	1.6	2.5
	SAAR				-1.6	3.8	1.9	-0.2	1.6	2.3	2.6	3.5
Unemployment Rate	%	8.0	7.8	7.4	7.8	8.0	8.0	7.8	7.8	7.7	7.6	7.5
CPI Inflation	YoY	2.8	2.9	2.3	2.4	2.7	2.8	3.0	2.9	2.7	2.4	2.3
Merch. Trade	£bn	-109.7	-103.6	-97.4								
	% of GDP	-7.1	-6.5	-6.0								
Current Account	£bn	-58.0	-51.4	-47.0								
	% of GDP	-3.7	-3.2	-2.9								
PSNB	£bn FY	-85.7	-111.7	-111.1								
	% of GDP	-5.5	-7.0	-6.7								
General Govt. Balance	% of GDP	-5.4	-6.9	-6.7								
Government Primary Balance		-2.4	-3.8	-3.5								
Public Debt	% of GDP	89.6	94.9	99.2								
Gross Nonoil Trading Profits	YoY	3.4	7.8	2.6								

Note: Fiscal deficit shown excluding financial interventions. F Citi forecast. YoY Year-to-year growth rate. Sources: ONS and Citi Research

⁷ See "Stagnation and Stimulus", UK Economics Weekly, Michael Saunders, 4 January 2013, Citi

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

Switzerland

We are raising our 2013 growth forecast from 0.9% to 1.4%, reflecting the resilience of GDP growth in recent quarters and the trends in the Kof guide in the last few months. Recent data suggest that GDP grew by about 0.4% QoQ in Q4, putting 2012 growth at about 1.0% — and marking the ninth consecutive year in which GDP growth has outpaced the EMU average. Such a figure would put Q4 growth at 1.3% YoY and, even if the economy does not accelerate much further, justify the upward revision to the 2013 forecast. Nevertheless, with negative inflation, we continue to expect the SNB will keep rates at zero and resist FX appreciation.

Sweden

Sweden's resilience is now being severely tested by falling exports and rising unemployment. Moreover, domestic demand is slowing; investment activity is weak and although household finances remain sound, consumers appear reluctant to spend. Supportive economic policies, though, suggest that a recession should be avoided (fiscal policy to add stimulus of 0.6% of GDP this year and the repo rate to be cut by an additional 25bp to 0.75% in Feb), but GDP growth will be weak in coming quarters (negative in 4Q) with negative repercussions for labour demand and in turn unemployment. Hence, we have cut our 2013 GDP growth forecast by 0.6pp to 1.0% Y/Y, but continue to forecast above-trend GDP growth next year.

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

Denmark

The Danish economy is likely to gradually return to growth in 2013, supported by large pent-up household demand, a delayed boost from public sector consumption and investment and improved competitiveness. The recovery, though, is likely to be weak as households continue to deleverage after the housing bust. The DKK has weakened vs. the EUR and DNB has purchased kroner in Sep-Dec to counter this trend. The size of intervention has been limited and would need to rise markedly before pressures on the DKK are large enough to justify an independent rate hike.

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

Norway

Norway will likely feel the headwinds from the international slowdown, but the cushion of high oil receipts should ensure that the economy continues to outpace most of Europe. We see a minor slowdown in 2014, but mainland GDP should still grow at a trend-like pace. Underlying inflation remains low and, with the strong currency, Norges Bank can keep interest rates stable for a while. Lower global policy rates will put a limit on how fast the Bank can tighten, and the first rate hike is likely to be deferred to 2H-2013.

Tina Mortensen
(44-20) 7986-3284
tina.mortensen@citi.com

Figure 25. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2012-2014F

		Switzerland			Sweden			Denmark			Norway		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	1.0%	1.4%	1.2%	1.1%	1.0%	2.5%	-0.4%	0.9%	1.8%	3.4%	3.1%	2.7%
Final Domestic Demand	YoY	1.7	0.6	1.2	1.6	0.9	1.9	0.7	1.3	1.7	2.8	3.6	3.1
Public Consumption	YoY	1.7	2.2	1.4	0.9	0.8	0.9	0.1	0.7	0.8	1.9	2.5	2.3
Private Consumption	YoY	2.1	0.6	2.1	1.4	1.5	2.1	0.7	1.2	1.7	3.2	3.5	3.1
Investment (Ex Stocks)	YoY	0.7	0.0	-1.4	3.4	-0.6	3.1	1.7	2.5	2.9	3.1	5.7	4.2
Exports	YoY	0.1	3.6	3.1	0.2	1.7	5.3	1.8	1.6	3.3	2.9	2.7	2.9
Imports	YoY	1.9	2.9	3.6	-0.2	1.3	4.1	3.3	2.7	3.2	5.0	3.0	2.5
CPI (Average)	YoY	-0.7	-0.9	-0.6	0.9	0.4	1.7	2.4	1.8	1.9	0.7	1.7	2.0
Unemployment Rate	%	2.6	1.9	2.0	7.7	8.3	8.4	7.7	7.8	7.6	3.1	3.2	3.2
Current Account	% of GDP	12.4	12.6	12.7	7.1	7.2	7.0	5.7	5.0	4.4	14.3	14.9	15.2
General Govt Balance	% of GDP	0.6	0.6	0.6	-0.5	-1.2	-1.1	-3.8	-2.0	-1.2	13.6	13.2	13.0
General Govt Debt	% of GDP	46.6	45.4	43.6	36.6	37.3	36.9	49.5	50.2	49.6	NA	NA	NA

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

Canada

Dana M. Peterson
(1-212) 816-3549
dana.peterson@citi.com

The economic expansion continues to advance at a moderate pace. Weak external demand and competitiveness pressures are hampering export growth, while housing moderation and fiscal consolidation are capping domestic demand. Nonetheless, hiring has been impressive, household credit growth has calmed materially, and domestic financial conditions remain very accommodative. Business expectations are brightening and consumer sentiment remains buoyant.

The US Fiscal Cliff Deal removed a major source of downside risk to the Canadian economy. The projected impact of just under 1% of fiscal drag on the US economy is a tad less than what Citi economists anticipated, leaving our base-case largely intact. We continue to project growth of 1½% to 2% in 1H 2013 and 2½% to 3% in 2H 2013. We expect output will be fueled by consumer spending, business investment and external trade, while housing and government will likely weigh. Total and core inflation probably will return to the BoC's 2% target one quarter later than anticipated, but nonetheless within the bank's forecast horizon. Upside risks include (1) increased global inflationary pressures; (2) greater Canadian housing momentum; and (3) stronger Canadian exports amid improved competitiveness or stronger US growth. Downside risks include (1) failure to contain the Euro Area crisis; (2) intensified drag from US fiscal woes, hard landings among Emerging Markets or exchange rate volatility; and (3) Canadian consumer retrenchment.

Tepid global growth, lingering uncertainties and balanced risks warrant fixed rates near term. Moreover, somewhat reduced underlying momentum, slack, subdued inflation and modest inflation expectations likely will delay tightening from July to October of this year. Still, firmer global financial conditions and demand, renascent confidence and a broad investment revival, should support Canadian output and higher rates in 2H 2013. The BoC likely will retain its slightly hawkish bias in order to combat imbalances in the household sector related to debt and housing excesses.

Figure 26. Canada — Economic Forecast, 2012-2014F

		2012F	2013F	2014F	2012F		2013F				2014F	
					3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	2.0%	1.8%	2.7%	1.5%	1.4%	1.3%	1.5%	2.0%	2.4%	2.6%	2.7%
	SAAR				0.6	1.5	1.7	2.1	2.8	3.0	2.6	2.6
Final Domestic Demand	YoY	1.8	1.9	2.4	1.9	1.7	1.6	1.8	1.9	2.2	2.4	2.4
	SAAR				1.6	1.6	1.7	2.1	2.4	2.7	2.3	2.3
Private Consumption	YoY	2.0	2.5	2.4	2.1	2.2	2.3	2.8	2.4	2.4	2.4	2.4
	SAAR				3.8	2.3	2.7	2.4	2.3	2.3	2.5	2.5
Government Spending	YoY	-0.8	0.9	1.4	-0.8	0.1	0.6	0.8	1.1	1.2	1.4	1.4
	SAAR				0.0	0.9	0.7	1.4	1.4	1.4	1.4	1.4
Private Fixed Investment	YoY	5.0	1.3	3.6	4.7	2.6	0.7	0.0	1.5	2.8	3.6	3.8
	SAAR				-2.2	0.1	0.0	2.2	3.8	5.4	3.1	3.1
Exports	YoY	1.1	0.8	6.2	-1.7	-3.9	-2.3	-1.4	2.1	4.9	5.6	6.2
	SAAR				-7.8	-4.5	3.3	3.9	6.0	6.4	6.2	6.3
Imports	YoY	2.4	2.2	4.7	2.7	1.1	1.0	1.7	2.2	4.0	4.4	4.5
	SAAR				0.7	-2.9	3.5	4.5	4.0	4.2	5.0	5.0
CPI	YoY	1.5	1.3	2.0	1.2	1.0	0.8	1.2	1.6	1.7	2.0	2.0
Core CPI	YoY	1.7	1.6	2.1	1.5	1.3	1.2	1.3	1.8	2.0	2.1	2.1
Unemployment Rate	%	7.3	7.2	6.7	7.3	7.2	7.3	7.2	7.2	7.0	7.0	6.8
Current Account Balance	C\$bn	-74.3	-84.9	-79.7	-75.6	-82.0	-84.8	-87.1	-84.8	-83.1	-80.0	-81.0
	% of GDP	-4.1	-4.6	-4.1	-4.1	-4.5	-4.6	-4.7	-4.5	-4.4	-4.2	-4.2
Net Exports (Pct. Contrib.)		-0.5	-0.5	0.3	-3.0	-0.4	-0.2	-0.3	0.5	0.5	0.2	0.2
Inventories (Pct. Contrib.)		0.5	0.3	-0.1	1.6	0.4	0.1	0.3	-0.1	-0.3	0.0	0.0
Budget Balance (Fiscal Year)	% of GDP	-1.4	-0.9	-0.4								
Federal Budget Debt	% of GDP	33.4	33.3	32.3								
General Govt. Debt	% of GDP	86.2	86.0	85.0								

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

Australia

Paul Brennan
(61-2) 8225-4899
paul.brennan@citi.com

Joshua Williamson
(61-2) 8225-4904
josh.williamson@citi.com

The drag on national income from the fall in the terms of trade likely will fade in H1 this year given the rebound in commodity prices that has been driven by the improved growth momentum in China and the generally “risk on” financial backdrop. However, the strong AUD remains a significant headwind. More broadly, there is still no clear evidence that the domestic economy is getting meaningful traction from the series of RBA rate cuts. Both business and consumer confidence are soft, credit appetite remains weak, house prices are flat and job openings have declined. The unemployment rate remains low at 5.4%, but we expect it to rise towards 6% over the first half of this year. We now forecast GDP growth of about 2½% this year, slightly lower than consensus. Inflation is no barrier to further easing of monetary policy so we expect another rate cut next month, although the timing of the cut could slip into March. The RBA cut twice in the final quarter of last year and may wait for more information on how the economy responds before cutting again.

New Zealand

There are signs of improvement in the economy. Firms are more optimistic and business activity is reported to be at the best level since mid-2007 according to one prominent recent economic survey. While the improvement is broad based across industries, the most notable increase in business activity is centred on the Christchurch rebuild. More importantly, there are no signs yet that strengthening activity is translating into a stronger labour market or the ability of firms to significantly raise prices. Capacity pressures remain absent outside the Christchurch region. Indeed, the Q4 CPI was lower than both the RBNZ’s forecast and what might have been expected based on pricing intentions. Inflation in the second half of last year was virtually flat, both in headline and underlying terms. With the CPI likely to remain slightly below the mid-point of the target band in 2013, we continue with our call for no RBNZ rate hike until Q1 2014.

Figure 27. Australia and New Zealand — Economic Forecast, 2012-2014F

	Australia			New Zealand		
	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP ^a	3.6%	2.4%	3.0%	1.8%	2.2%	2.3%
Real GDP (4Q versus 4Q)	3.1	2.6	3.0	1.4	2.3	3.1
Real Final Domestic Demand	4.8	2.5	2.8	2.4	3.3	3.1
Consumption	3.6	2.7	3.3	1.8	2.6	2.1
Govt. Current & Capital Spending ^b	1.6	1.0	2.3	0.6	1.7	1.8
Housing Investment	-5.4	2.5	6.4	16.6	16.3	6.0
Business Investment ^c	17.4	3.9	0.7	4.0	4.6	6.7
Exports of Goods & Services	5.7	6.2	6.9	0.2	-1.5	1.0
Imports of Goods & Services	7.1	7.6	6.1	2.9	3.7	3.6
CPI	1.8	2.9	2.5	1.1	1.8	2.1
CPI (4Q versus 4Q)	2.3	2.8	2.6	0.9	1.9	2.1
Unemployment	5.2	5.5	5.7	7.0	6.6	6.0
Merch. Trade, BOP (Local Currency, bn)	-16.3	-34.0	-43.3	0.3	-2.2	-4.1
Current Account, (Local Currency, bn)	-58.4	-74.6	-88.2	-12.7	-18.6	-20.4
Percent of GDP	-3.9	-4.8	-5.4	-6.2	-8.7	-9.1
Budget Balance ^d (Local Currency, bn)	-43.7	-12.5	0.5	-10.9	-6.9	-2.4
Percent of GDP	-3.0	-0.8	0.0	-5.3	-3.2	-1.1
General Govt. Debt (% of GDP) ^e	29.0	29.8	28.4	38.9	38.4	41.8
Gross Trading Profits ^f	-3.8	2.9	6.0	NA	NA	NA

BOP Balance of payments basis. CPI Consumer Price Index. F Citigroup forecast. NA Not available. ^aAveraged-based GDP in Australia and New Zealand. ^bIn New Zealand excludes capital spending. ^cIn New Zealand includes government capital spending. ^dFiscal year ending June. Australia’s underlying cash balance. ^eAustralia and New Zealand Budget definition and forecasts. ^fCompany gross operating surplus. Sources: ABS, StatsNZ, NZIER and Citi Research

China

Minggao Shen
(852) 2501-2485
minggao.shen@citi.com

Shuang Ding
(852) 2501-2769
shuang.ding@citi.com

Enjiang Cheng
(86) 10 5937 6038
enjiang.cheng@citi.com

The government secured a cyclical rebound through policy easing in 2012. Growth rebounded from 7.4%YoY in 3Q to 7.9% in 4Q, delivering annual growth of 7.8%. While the growth rate exceeded the official target of 7.5%, this was the first year with sub-8% growth since 1999. Such a pace of growth was achieved through substantial policy easing, including expansionary fiscal policy, accommodative monetary policy, and accelerated investment approval and implementation. Interest rates were cut twice last year, and broad money growth reached 13.8% YoY. More importantly, total social financing reached Rmb15.8tn, after Rmb12.8tn in 2011, suggesting quite loose credit conditions outside the banking system. As a result of the policy support, infrastructure investment quickened in 2H, bringing annual investment growth to 8.4%. As consumption stimulus gradually expired, growth of consumption fell from 10.7% in 2011 to 8.2% in 2012.

Domestic demand may normalise if policies shift to a neutral position. The central economic work conference last December maintained the proactive fiscal and prudent monetary policy stance, while attaching more emphasis to growth quality. As downside risks decline and inflation starts to trend up, macro policies may gradually shift from an easing bias to a neutral position. Under the working assumption of 7.5% growth and 3.5% inflation, the government may set the 2013 budget deficit target at around 2.0% of GDP, down from 2.4% of GDP in 2012 (Citi definition). The PBOC may target M2 growth at 13% and RMB credit growth at 13-14% (roughly 8.5tn), both lower than outcomes for 2012. While the lagged effect of policy easing in 2012 may elevate growth slightly above 8% in 1H, the policy shift may bring growth back to sub-8% subsequently. We therefore keep our 2013 growth forecast at 7.8%, with some upside risks from stronger US growth over the course of the year.

Declining working age population exerts structural gravity. It has long been known that China's working age population will soon start to decrease. The time has come. Following a drop in the share of the working age in total population in 2011, the number of the working age fell by 3.5 million in 2012. The trend will likely have profound impacts on the supply and cost of labour in the longer term, and put some downward pressures on China's growth potential. Going forward, growth of below 8% may become the norm rather than exception.

Figure 28. China — Economic Forecasts, 2012-2014F

					2012F		2013F				2014F	
		2012F	2013F	2014F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	7.8%	7.8%	7.3%	7.4%	7.9%	8.0%	8.2%	7.7%	7.5%	7.1%	7.2%
Real Final Domestic Demand	YoY	8.3	8.3	7.7								
Consumption	YoY	8.2	8.5	8.1								
Fixed Capital Formation	YoY	8.4	8.2	7.3								
Industrial Production	YoY	10.0	10.0	9.3	9.1	10.0	10.2	10.4	9.8	9.5	9.1	9.2
Exports	YoY	7.9	7.6	11.2	4.4	9.6	6.0	7.0	8.0	9.0	8.0	10.0
Imports	YoY	4.3	10.0	13.1	1.4	2.7	8.0	9.0	11.0	12.0	10.0	12.0
Merchandise Trade Balance	\$bn	231	205	190	79	83	-8	64	72	78	-18	61
FX Reserves	\$bn	3,312	3,522	3,647	3,285	3,312	3,303	3,367	3,439	3,522	3,484	3,529
Current Account	% of GDP	2.5	2.0	1.5								
Fiscal Balance	% of GDP	-2.4	-2.0	-2.0								
General Govt. Debt*	% of GDP	43.7	42.6	40.9								
Urban Unemployment Rate	%	4.1	4.1	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.2	4.2
CPI	YoY	2.6	2.8	3.6	1.9	2.1	2.3	2.5	2.9	3.5	3.5	3.5
Exchange Rate (end period)	CNY/\$	6.23	6.09	6.05	6.28	6.23	6.17	6.14	6.11	6.09	6.08	6.07
1-Yr Deposit Rate (end period)	%	3.00	3.25	3.75	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.50

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 govt and Ministry of Railway. Sources: Haver Analytics and Citi Research

India

Rohini Malkani
+91 22 6631 9876
rohini.malkani@citi.com

Monthly data in industrial activity have been volatile with the latest factory output reading at -0.1%. However, most high frequency data including 3mma trends in industrial activity clearly indicate a bottoming out with growth at 2.5% v/s near zero readings earlier this fiscal year. This is in line with the PMI data which has stabilised over the last four months. We are thus maintaining our FY13 and FY14 GDP estimates of 5.4% and 6.2%, respectively.

India's headline WPI continued to surprise positively with the December reading at 7.2%. More importantly, manufactured non-food product inflation — the RBI's proxy to core — edged closer to the RBI's comfort zone of 4% with the latest reading at 4.2% as compared to 8% readings a year ago. However, CPI remains sticky at ~9%+ levels. Thus despite lower WPI, elevated levels of CPI inflation and consequently higher inflation expectations bring to the fore the RBI's dilemma of reducing rates despite growth slowing to a 10-year low. Lower rates could lead to a further diversion of financial savings into physical savings which has resulted in deposit growth at historic lows. We maintain our view that easing will be limited to 75bps in 2013 and expect a 25bps cut in the policy rate on January 29.

On the fiscal deficit, accounting for expenditure and revenue slippages, we maintain our view of the FY13 deficit coming in at 5.9% of GDP vs. the govt's "revised" target of 5.3%. However, a successful re-auction in the telecom space, a deferment of fuel subsidies and the possibility of compressing plan expenditure could limit the slippage to 5.5% of GDP.

On the external account, we expect trends in the current account deficit to remain elevated due to a continuation of high trade deficits as exports are more sensitive to global demand rather than the INR, while oil and gold are likely to keep imports high. Invisibles are likely to moderate due to the drag by investment income outflows — a result of rising external debt. While the reforms are likely to aid capital flows, the relatively high CAD is likely to limit any reserve build-up. This coupled with the declining fx import cover and rating agencies on the vigil, is likely to result in the INR trading in the Rs54-Rs56 range over the next 12 months.

Figure 29. India — Economic Forecasts, FY2012/13-2014/15F

		FY 12/13F	FY 13/14F	FY 14/15F
Real GDP	YoY	5.4%	6.2%	6.9%
Final Domestic Demand	YoY	4.8	5.8	7.3
Private Consumption	YoY	5.0	5.5	6.7
Fixed Investment	YoY	4.5	6.0	9.0
Exports	YoY	8.0	15.0	11.0
Imports	YoY	6.0	10.8	9.5
Wholesale Price Index*	YoY	7.5	7.0	6.0
Consumer Price Index	YoY	7.0	6.5	6.0
Current Account	US\$ bn	-76	-77	-75
	% of GDP	-4.0	-3.5	-3.0
Consolidated Fiscal Balance	% of GDP	-8.5	-8.0	-7.5
Centre Fiscal Balance	% of GDP	-5.9	-5.5	-5.0
US Dollar Exchange Rate	Average	55.0	54.1	54.5

Note: * In India, policymakers look at the wholesale price index. Sources: Haver Analytics and Citi Research

Korea

Jaechul Chang
+82 2 2077 4160
jaechul.chang@citi.com

The BoK left the policy rate unchanged at 2.75% at January's MPC meeting, although it revised down the 2013 growth forecast by 0.4%p to 2.8%. We also cut our 2012 and 2013 growth estimates by 0.2% to 2.1% and 3.2%, respectively, reflecting slower-than-expected growth momentum in 4Q-12 due to sluggish exports and facilities investments which are expected to continue in 1H-13. Yet, we think the recovery of the economy will accelerate in 2H13 on the back of accommodative macro policies in 1H — including another 25bps rate cut in 1Q, in February at the earliest, and a supplementary budget in 2Q of about KRW10~15trn — as well as improvement in exports and investment. The recent sharp appreciation of the KRW amidst the weakening of the JPY has increased concerns about the loss of Korean exporters' price competitiveness and thus reduced the expected growth contribution from exports. To support exporters, especially SMEs that are more vulnerable than large corporations to the strong KRW, the BoK will probably implement more active smoothing operations. Moreover, the government is highly likely to further tighten existing macro-prudential measures to prevent a free fall of USDKRW going forward.

Indonesia

Helmi Arman
+65-21-5290-8960
helmi.arman@citi.com

Some improvements in the trade balance have occurred as prices of key commodities e.g. coal and more recently palm oil, have rebounded. However, these improvements seem to have been outweighed by a deterioration of the oil and gas trade deficits. This is amid a declining trend in oil lifting and strong domestic fuel consumption growth (i.e. 8% YoY in 2012). Risks of policy paralysis are emerging as the government so far appears reluctant to adjust subsidised fuel prices; meanwhile the monetary authorities also seem reluctant to tighten the policy stance, viewing that the external imbalance has been increasingly attributed to government inaction on fuel subsidies. We still expect the current account deficit to improve in 2013 but adjust it upward to 2.0% of GDP, from previously 1.7%. Continued weakening of the IDR, along with other cost pressures e.g. wage hikes also compel us to revise up our yearend 2013 inflation forecast to 5.5%, from previously 5.0%. As for rates (FasBI rate), BI has been reluctant to hike but we note that views may change should the pressure on the IDR persist. Our baseline remains for 2x25bps rate hikes in 2H-13. However, the release of the 4Q12 CA deficit data in early February should be closely monitored. An annualised figure above 3pct of GDP could lead BI to hike earlier than expected.

Figure 30. Korea and Indonesia — Economic Forecasts, 2012-2014F

		Korea			Indonesia		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	2.1%	3.2%	4.1%	6.2%	6.1%	6.3%
Final Domestic Demand	YoY	1.4	2.7	3.6	6.0	6.5	7.0
Private Consumption	YoY	1.8	2.2	3.4	5.1	4.4	5.0
Fixed Investment	YoY	-0.7	2.8	4.5	10.5	10.5	9.5
Exports	YoY	4.1	5.2	9.2	1.3	5.5	10.2
Imports	YoY	2.6	4.7	9.0	4.3	7.7	11.9
Consumer Price Index	YoY	2.2	2.6	3.0	4.3	4.7	4.7
Unemployment Rate	%	3.2	3.2	3.2	6.1	5.9	5.8
Current Account	US\$ bn	42.1	28.6	26.5	-22.8	-19.8	-16.7
	% of GDP	3.7	2.2	1.8	-2.6	-2.0	-1.5
Fiscal Balance	% of GDP	1.4	1.1	1.4	-1.8	-1.5	-1.4
US Dollar Exchange Rate	Average	1127	1035	1007	9361	9845	9708

Sources: Haver Analytics and Citi Research

Adrienne Lui
+852 2501 2753
adrienne.lui@citi.com

Hong Kong

The recovery likely firmed further in 4Q-12, given encouraging retail sales and trade data for November. The recent uptick in stock market sentiment and capital inflows, if sustained, could further boost real activities in 1Q-13. The Government has set economic development and ensuring affordable housing as its key priorities, while tackling issues related to poverty and aging for the next five years. Although no demand-side property market curbs were announced in the Policy Address, vigilant policymakers likely will keep property prices more stable this year. We expect further inflation-relieving measures to be announced in the Budget Speech in February. The HKMA has issued more EF bills after many rounds of HKD injections to defend the HK peg, but Interest rates are likely to remain low given flush liquidity.

Singapore

While our base case forecasts anticipate that growth momentum has bottomed, external conditions could remain challenging in 1H13. Despite sluggish external demand, mounting complaints of labour shortages indicate that aggregate supply continues to lag amidst the tighter foreign worker policy, though we doubt the policy will be relaxed in the upcoming Budget. Wage pressures should continue to drive inflation in services, reinforcing the lift from private road transport. While base effects could temporarily push core inflation below 2% in early 2013, continued elevated headline at near 4% should give MAS little room to ease policy. The continued acceleration in house prices triggered the most extensive round of cooling measures to date, which may finally cause prices to soften.

Taiwan

Year end data showed further strength, although the expected recovery in exports is unlikely to come in a straight line given distortions with tech product launches and weak European demand. We do not see signs that yen weakness is significantly eroding the competitiveness of Taiwanese electronics exports yet. Nevertheless, declining consumer confidence as of December (along with falling wages) remains an obstacle to a more secure growth recovery in 1H-13. CPI inflation is likely to rise near term on effects from festive activities and base effects. The CBC kept its policy rate on hold in its latest Quarterly meeting, and we expect its neutral stance to continue in 2013. Offshore RMB banking likely will be launched after the Chinese New Year and other RMB-denominated products (e.g. bonds) could follow soon. Mild NTD appreciation, along with regional trends, is likely to continue in 2013.

Figure 31. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2012-2014F

		Hong Kong			Singapore			Taiwan		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	1.4%	2.8%	3.5%	1.2%	2.0%	4.0%	1.1%	3.0%	3.8%
Final Domestic Demand	YoY	4.8	2.2	2.0	2.5	2.3	3.4	0.3	1.7	3.1
Private Consumption	YoY	3.8	1.9	2.1	1.4	2.8	3.3	1.2	1.9	2.7
Fixed Investment	YoY	8.1	2.8	2.1	6.2	1.6	3.5	-2.9	2.2	6.1
Exports	YoY	1.0	1.8	4.3	0.2	2.1	2.8	-0.4	3.9	4.3
Imports	YoY	1.9	1.7	3.7	1.4	3.0	2.7	-2.1	2.6	3.0
CPI	YoY	4.1	4.0	3.7	4.6	3.8	3.4	1.9	2.0	1.8
Unemployment Rate	%	3.3	3.4	3.3	2.2	1.9	1.8	4.3	4.2	4.0
Current Account	US\$ bn	13.2	15.8	18.7	45.2	42.2	44.0	42.9	45.4	45.9
	% of GDP	5.0	5.6	6.2	16.3	13.9	13.3	8.7	8.4	8.0
Fiscal Balance	% of GDP	0.8	1.1	1.1	1.3	1.0	1.0	-1.6	-1.2	-1.3
US Dollar Exchange Rate	Average	7.76	7.76	7.75	1.25	1.21	1.19	29.57	28.59	28.30

Sources: Haver Analytics and Citi Research

Elina Ribakova
(44-20) 7986-4356
elina.ribakova@citi.com

Natalia Novikova
+7 495 643 1507
natalia1.novikova@citi.com

Ilker Domac
+90 212 319 4623
ilker.domac@citi.com

Gultekin Isiklar
+90 212 319 4915
gultekin.isiklar@citi.com

Russia

GDP growth decelerated to 2.9%YoY in 3Q12 from 4.5%YoY in 1H12. According to preliminary estimates, it is likely that growth continued to decelerate in 4Q2012. As we expected, retail sales growth slowed to 4.6% YoY in July-Nov. compared to 7.4% in 1H-2012 as effects of the pre-election spending tapered off. Headline inflation remained above the CBR target range at 6.6% YoY (core 5.7%) in end-December 2012. According to the official 2013 forecast, the average inflation rate will increase to 6.7% supported by 15-20% indexation of energy and railroad tariffs. We forecast inflation to remain at 6.5% or marginally above in 1H13, slowing down to 5.9-6% in December owing to weak economic growth. The CBR hiked the deposit rate in December and at the same time lowered rates for swaps that have become increasingly more popular with banks in the recent months. Going forward we expect the CBR to make technical adjustments to the rates and wait for more clarity on inflation and economic activity before making any policy rate changes. Net capital outflows have slowed in 2012 owing to the larger private sector borrowing from abroad. In our base case, we expect the ability to use Euroclear for Russian bonds to be introduced in 1Q13, and coupled with the seasonally strong current account, this should drive the ruble to about 34/BASK.

Turkey

The recent data suggest that while a relative pick up in economic activity with respect to 3Q 12 is underway, the overall growth picture remains rather mixed. With this caveat in mind, we continue to look for a (domestic demand driven) GDP growth rate of about 4% this year, with the current account adjustment having already been completed. On the inflation front, we think that the outlook is more challenging than has been forecast by the CBT. We also believe that year-end inflation is likely to be higher than market expectations which, according to the most recent CBT survey results, stand at 6.3%. Based on our expectations of a reversal in food prices and administrative price adjustments, we expect year-end inflation to be around 7.5% — well above the 5% target. Turning to monetary policy, evidence to date suggests to us that the CBT will maintain its unorthodox approach and dovish bias this year as well. In our view, the CBT's ability to keep its current stance and ease will be shaped by capital inflows. The difficult inflation prospects, low real yields and the wide current account gap, however, raise questions about the sustainability of the CBT's current strategy and overshadow the outlook for Turkish assets.

Figure 32. Russia and Turkey — Economic Forecast, 2012-14F

		Russia			Turkey		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	3.5%	3.0%	3.7%	2.8%	4.0%	4.3%
Final Domestic Demand	YoY	1.5	1.0	1.6	-0.1	3.4	4.8
Private Consumption	YoY	6.0	5.0	5.0	0.0	3.2	4.3
Fixed Investment	YoY	6.9	4.6	6.9	-2.0	4.2	6.7
Exports	YoY	1.4	1.1	1.7	16.0	4.5	4.2
Imports	YoY	7.9	4.5	4.5	-2.8	2.5	6.1
CPI	YoY	5.1	6.5	5.7	8.9	7.4	7.3
Unemployment Rate	%	5.5	6.5	7.0	9.2	9.5	9.5
Current Account	US\$ bn	81.1	48.9	-1.4	-52.0	-61.1	-68.0
	% of GDP	4.2	2.2	-0.1	-6.4	-6.8	-7.0
Fiscal Balance	% of GDP	-0.4	-1.2	-2.1	-2.0	-2.2	-2.7
US Dollar Exchange Rate	Average	31.1	30.8	32.5	1.80	1.82	1.88

Sources: Haver Analytics and Citi Research

Eszter Gargyan
+36 (1) 374-5559
eszter.gargyan@citi.com

Hungary

Based on the disappointing 4Q12 industrial output data, we have lowered our 2012 GDP estimate to -1.7%YoY but continue to forecast marginal growth of 0.2%YoY in 2013 as expanding car manufacturing capacities may help to accelerate exports and the ongoing fall in domestic demand may slow. Regulated household utility price cuts and moderating fuel and food prices will likely deliver a sharp reduction in headline CPI inflation, providing arguments for further gradual rate cuts along with the expected weak growth figures for 1Q-13. The replacement of the NBH governance from March 2013 and the potential utilisation of nonconventional monetary policy tools may deliver increased pressure on the currency in the coming months and limit the room for aggressive rate cuts. The fiscal balance may remain tight in 2013 but, given the projected widening in the deficit from 2.9% in 2013 to 3.6% in 2014 without additional measures, we expect the EU to keep Hungary under the EDP, which may eventually force the government to adjust its fiscal position further. The external surplus may widen as exports and EU transfers rise this year, which may stabilise the currency in the long term as risks related to monetary regime changes fade.

Poland

Recent data releases confirmed the further weakening of economic activity. Monthly data signal a further GDP growth slowdown in 4Q12 to below 1%YoY from 1.4% in 3Q and we expect the GDP growth rate to bottom in 1Q-13 at 0.5%YoY. We are cutting slightly our 2012 GDP estimate to 1.9% (2.1% previously) and maintain the forecast of 1.3% YoY growth in 2013. This reflects a further slight weakening in private consumption and substantial weakening in investment growth to -3.1%YoY from -1.1% in 2012. Private consumption growth, which was at a record low already in 3Q (0.1%YoY) is set to be negatively affected by deteriorating labour market conditions, a near-zero saving rate and credit growth rate of households and corporates. Meanwhile, we expect investment to be negatively affected by uncertainty with regards to future GDP growth and relatively tight fiscal policy. We expect that amid below-potential economic growth, the government will allow the automatic stabilisers to work and that this will result in the stabilisation of the fiscal deficit at around 3.5% of GDP, with probable amendment to the budget during the year. At the same time we expect a further gradual decline of debt to GDP ratio. We also expect further, though slower, monetary policy easing with the next rate cut in February and a longer pause afterwards. We expect the reference rate will fall below 3.50% till 3Q13.

Piotr Kalisz
48 (22) 692 9633
piotr.kalisz@citi.com

Cezary Chrapek
+48 (22) 692 9421
cezary.chrapek@citi.com

Figure 33. Hungary and Poland — Economic Forecasts, 2012-2014F

		Hungary			Poland		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-1.7%	0.2%	1.3%	1.9%	1.3%	2.8%
Final Domestic Demand	YoY	-2.3	-1.1	-0.7	0.3	0.1	2.9
Private Consumption	YoY	-2.0	-0.9	-0.2	0.9	1.1	3.1
Fixed Investment	YoY	-5.8	-3.0	-2.5	-1.1	-3.1	2.7
Exports	YoY	2.0	2.2	4.6	1.5	2.2	8.5
Imports	YoY	0.5	1.1	3.1	-2.5	-0.1	9.0
CPI	YoY	5.7	3.5	3.6	3.7	2.1	2.4
Unemployment Rate	%	10.6	10.5	10.2	13.3	14.2	13.4
Current Account	US\$ bn	2.9	4.5	6.6	-16.6	-15.6	-20.5
	% of GDP	2.2	3.4	4.8	-3.3	-3.0	-3.6
Fiscal Balance	% of GDP	-2.8	-2.9	-3.6	-3.5	-3.5	-2.8
Euro Exchange Rate	Average	289	303	293	4.18	4.25	4.04

Sources: Haver Analytics and Citi Research

Jaromir Sindel
+ 42 0 233 061 485
jaromir.sindel@citi.com

Czech Republic

We are cutting our 4Q12 GDP forecast to -1.7%YoY (-0.4%QoQ) from -1.5% (-0.2%) previously because of weak data from the real economy across all sectors during October-November and the likely vanishing positive contribution of net exports to GDP. However, our 2012 forecast that GDP fell 1.1%YoY remains unchanged. The contraction in 2013 will likely be worse at -0.2%YoY (from -0.1% previously) as the economy is likely to continue to suffer from weak foreign demand. The economy probably will improve somewhat in mid-13, but will still likely be subdued in 2014. Hence, we only expect a mild recovery by 0.9%YoY during that year. CNB Governor Singer said after the December meeting that the forecast risks were only slightly disinflationary and did not advance the CNB's forecast of a cut in the policy rate from 2Q13 to 1Q13. However, the aforementioned weaker data from the real economy and the adjusted core CPI below the CNB forecast (-0.6%YoY in Dec12 vs. -0.4%) are likely to represent additional disinflationary factors. Having said this, we think the CNB implicit targets for EURCZK would be around 25.7 in 1Q13, 25.9 in 2Q13 and 26-26.4 in 2H13. Hence, either swings in EURUSD or an ECB cut could eventually trigger FX intervention in 2Q-3Q13. On the political side, the situation has calmed, which is supportive for prudent fiscal policy.

Romania

The recent leu rally, which started in mid-December, has been receiving a great deal of attention. In our view, this is underpinned by two factors. First, while the NBR kept its policy rate constant at 5.25%, it drove money market rates higher (for, instance, as much as about 50bp above the policy rate in December) through tightening liquidity, thereby making the currency more attractive. Second, the improved political stability following the December 2012 elections played an important role in lowering the risk premium, which was also reflected in the country's CDS spreads. The inclusion of the country's government bonds to a major bond index further strengthened the rally. Where do we go from here? The combination of recent leu appreciation and ongoing concerns about the economic recovery has led us to revise our rate outlook: we no longer expect a 50bp policy rate hike in 1H, which, in some respect, has already taken place. Put differently, it looks like the NBR prefers to tighten to prop up the currency and steer inflation closer to the target through liquidity tightening instead of hiking the policy rate. Concurrently, while November retail trade data and recent sentiment indicators show nascent signs of a pick up in activity, we are yet to see meaningful signs of a pick up in domestic demand. Against this backdrop, we believe the NBR will be inclined to relax its tightening bias further provided that the currency remains stable.

Ilker Domac
+90 212 319 4623
ilker.domac@citi.com

Gultekin Isiklar
+90 212 319 4915
gultekin.isiklar@citi.com

Figure 34. Czech Republic and Romania — Economic Forecasts, 2012-2014F

		Czech Republic			Romania		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-1.1%	-0.2%	0.9%	0.4%	1.7%	2.9%
Final Domestic Demand	YoY	-1.6	-0.5	1.2	2.4	1.7	2.6
Private Consumption	YoY	-2.5	-0.2	1.1	0.4	1.4	2.4
Fixed Investment	YoY	-0.2	-0.2	2.4	10.0	3.0	3.5
Exports	YoY	5.1	3.0	1.9	-3.0	3.0	4.0
Imports	YoY	3.1	0.4	3.5	-0.9	2.4	3.0
CPI	YoY	3.3	2.0	1.2	3.3	4.6	3.5
Unemployment Rate	%	7.0	7.7	7.7	5.0	5.2	5.5
Current Account	US\$ bn	-3.9	-4.5	-6.8	-6.5	-8.2	-9.5
	% of GDP	-2.0	-2.3	-3.4	-3.8	-4.1	-4.5
Fiscal Balance	% of GDP	-4.8	-3.1	-2.7	-2.2	-2.2	-2.5
EURCZK, USDRON	Average	25.1	26.0	25.4	3.5	3.2	3.2

Sources: Haver Analytics and Citi Research

Marcelo Kfoury
+55 11 4009 3470
marcelo.kfoury@citi.com

Brazil

In 2012, CPI inflation surprised to the upside, reaching 5.8% by year end, while GDP performance disappointed, expanding around 0.9% during the year (data to be released on March 1). The frustrating economic recovery has led us to revise our 2013 GDP outlook, motivating a reduction in our growth estimate to 3.1% (from 3.4%). Regarding inflation, the end of tax rebates for automobiles and pressures on food prices have encouraged us to raise our 2013 year end CPI inflation estimate to 5.6% (from 5.2%). Furthermore, the likely impact from the potential power rationing has led us to set an upward bias to our 2013 inflation estimate. From the point of view of monetary policy, we believe the worsening trade off (lower growth and higher inflation) will not prevent the central bank from cutting Selic further to 6.5%. However, the alternative scenario under power rationing assumption sounds more consistent with no interest rate moves. In terms of fiscal policy, after the strategy of boosting temporary revenues to improve fiscal results last year, we are even more convinced that the primary surplus will not return to the 3.1% of GDP target. Finally, although fundamentals continue to call for BRL appreciation, intervention in the FX market probably will keep USD/BRL in a range between 2.0 to 2.10.

Mexico

Sergio Luna Martinez
+52 55 2226 6799
sergio1.luna@banamex.com

We keep our view of a mild slowdown during 4Q12 and therefore reiterate our 2012 and 2013 GDP growth forecast at 3.9% and 3.6%, respectively. Meanwhile, inflation closed 2012 at 3.6% YoY, driven by a surprising drop in the price of mobile phone services. This positive shift in relative prices, along with fewer price pressures from non-core items and well-behaved trajectories for other core components (services in particular) should result in headline inflation closing this year at about 3.8%YoY, within Banxico's variability range. Accordingly, we see the policy rate on hold at 4.5% throughout the year as our central scenario. We see the USD/MXN at 12.40 and 12.50 for the 3-month horizon and year-end respectively. Our view on the Mexican currency is also influenced by the fact that, on the political front, Mexico is enjoying an unprecedented period of cooperation among its main political forces. We believe that the Peña Nieto administration and Congress will achieve progress in the structural reform agenda, particularly in areas such as fiscal and energy reform. However, we do not underestimate the political challenges involved and we assume a scenario of gradual progress, with agreements starting to materialise until the second half of this year.

Figure 35. Brazil and Mexico — Economic Forecasts, 2012-2014F

		Brazil			Mexico		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	0.9%	3.1%	4.2%	3.9%	3.6%	3.8%
Final Domestic Demand	YoY	1.6	3.5	5.0	3.6	3.9	4.5
Private Consumption	YoY	2.9	4.1	4.3	3.1	3.5	4.0
Fixed Investment	YoY	-4.3	2.3	8.7	6.3	6.8	7.5
Exports	YoY	-1.1	3.0	5.6	5.0	4.0	6.5
Imports	YoY	-0.4	5.4	9.6	3.4	3.2	4.5
CPI	YoY	5.4	6.1	5.5	4.1	3.8	3.7
Unemployment Rate	%	5.5	5.5	5.4	5.0	4.4	4.5
Current Account	US\$ bn	-52.3	-58.0	-65.2	-10.0	-21.6	-26.2
	% of GDP	-2.4	-2.6	-2.7	-0.8	-1.6	-1.8
Fiscal Balance	% of GDP	-2.6	-2.4	-2.2	-2.2	-2.1	-2.0
US Dollar Exchange Rate	Average	1.95	2.07	2.07	13.16	12.45	12.50

Sources: Haver Analytics and Citi Research

Argentina

Joaquin A Cottani
+1 212 816 2735
joaquin.cottani@citi.com

Activity growth has decelerated during 4Q12, in line with our expectations. As a result, our preliminary estimates suggest that our in-house real GDP estimator has dropped 0.2% during the first eleven months of 2012, when compared to the same period of 2011. We continue to expect a pickup in growth for 2013, and for non-official GDP growth to stand close to 3%. Regarding official figures, real GDP grew by only 0.7% YoY in 3Q12, and 1.8% YoY during the first three quarters of 2012. We have therefore cut our forecast for 2012 official GDP growth to 1.9%, while we continue to expect a 3% expansion in 2013. Despite the sluggish growth prints, inflation has not receded, but has in fact accelerated slightly: non-official inflation stood at 25.2% in 2012, up from 24.2% in 2011. Meanwhile, official inflation increased to 10.8% at end-2012 from 9.5% in 2011. This fact is unsurprising given the high level of monetary expansion that took place in 2012: the monetary base rose 38%, with peso transfers to the public sector explaining 56% of the increase. Lastly, the central bank has continued increasing the depreciation of the peso vis-à-vis the USD recently. As a result, we continue to see the USDARS at 6 by the end of 2013.

Venezuela

Munir Jalil
+57 1 639 4195
munir.jalil@citi.com

While we recognize the uncertainty and difficult nature of all matters regarding President Chávez's health, we maintain our view that Venezuela will experience a macroeconomic deterioration this year and that required economic measures will not take place until this uncertainty is resolved (i.e. devaluation and USD-denominated debt issuance). In that sense, we anticipate GDP to expand at a 2% annual rate in 2013 after expanding 5.2% GDP in 2012, while we expect inflation will return to the 25% mark. Against this backdrop, we believe the real sector will continue experiencing USD scarcity. In the event of a presidential election taking place, we will see two forces eventually colliding: on one side, Chavismo without President Chávez as its natural leader and, on the other, the opposition represented by the MUD, as discussed in our [Venezuela Macro View - Political outlook: The General in his Labyrinth](#). Considering the likely outcome, further upside from here on this credit seems limited.

Figure 36. Argentina and Venezuela — Economic Forecasts, 2012-2014F

		Argentina			Venezuela		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	1.9%	3.0%	3.0%	5.2%	2.0%	2.0%
Final Domestic Demand	YoY	2.1	3.3	2.8	9.6	0.4	0.7
Private Consumption	YoY	4.0	3.5	3.2	6.7	-0.7	0.0
Fixed Investment	YoY	-5.2	1.6	1.9	11.2	1.2	1.1
Exports	YoY	-4.5	2.2	-1.9	0.6	3.9	4.8
Imports	YoY	-5.9	4.4	-2.3	16.9	-1.9	-1.0
CPI	YoY	10.0	12.6	14.5	21.1	24.2	24.3
Unemployment Rate	%	7.4	7.6	7.8	6.4	6.9	7.3
Current Account	US\$ bn	3.5	2.0	1.0	18.7	17.3	24.6
	% of GDP	0.7	0.4	0.2	5.0	4.8	6.0
Fiscal Balance	% of GDP	-2.4	-2.7	-2.9	-5.0	-4.0	-4.0
US Dollar Exchange Rate	Average	4.54	5.46	6.74	4.29	5.58	6.50

Sources: Haver Analytics and Citi Research

Farouk Soussa
+971 (4) 509 9750
farouk.soussa@citi.com

Saudi Arabia

Saudi oil production declined in the last two months of 2012, to just under 9.6mbpd in December. This is in line with our expectations given the reduction in domestic consumption during the cooler winter months, and does not, in our view, reflect a parallel reduction in exports or a structural shift in Saudi supply policy. Average oil production in 2012 was almost 6% up on 2011 and, combined with sustained high oil prices, boosted total revenues to the government to over SAR 1.2tr, higher than our own projections. Expenditure, however, also exceeded projections, up 6.1% on 2011 outlays, resulting in an overall surplus of SAR 386bn (14.3% of GDP), only slightly higher than our projection of SAR 342bn (12.6% of GDP). For 2013, we are conservatively projecting a decline in both oil production and prices, resulting in a decrease of over 13% in government revenues, although at SAR 1.1tr our figure is still a third higher than the government's own very conservative revenue projections. With expenditures expected to rise by around 5% this year, we see the overall surplus shrinking to around 6.6% of 2013 GDP, a trend that we think will continue in the future as oil production and prices soften going forward, while expenditure rises steadily. We have calculated the 2013 fiscal breakeven oil price (assuming average oil production of 9.5mbpd) to be US\$80 per barrel. In terms of economic activity, our projected reduction in production this year would result in a shrinking of the oil economy of almost 3%, which would be compensated by a surge in non-oil growth of 8.5%, leading to overall growth of just over 6% for 2013. We believe non-oil growth will be supported by continued strong domestic demand and high levels of government expenditure, with upside potential coming from the housing sector.

United Arab Emirates

Farouk Soussa
+971 (4) 509 9750
farouk.soussa@citi.com

Abu Dhabi's executive council has announced that the emirate intends to spend AED 330bn (US\$90bn) on investment projects over the coming 5 years. The announcement did not elaborate on whether this money would come from direct budgetary outlays (as opposed to programmes managed by government-related entities), nor did it give any real detail on how the expenditure would be allocated. In general terms, however, such an outlay is equivalent to around 25% of projected revenue over the period, and around 7.5% of projected GDP. The expenditure should continue to support diversification efforts, although we believe that Abu Dhabi will remain conservative in its development plans, particularly in the real estate and tourism sectors. By contrast, Dubai shows no signs of tempering the latest property boom. With property prices on the rise (Cluttons data show that average villa prices rose 27% in 2012), more ambitious projects continue to be announced, including the Mohamed Bin Rashid city mega-development.

Figure 37. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2012-2014F

		Saudi Arabia			United Arab Emirates		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	6.8%	6.2%	7.3%	2.1%	4.6%	4.9%
Final Domestic Demand	YoY	-10.4	8.1	8.1	3.4	3.4	3.8
Private Consumption	YoY	-10.7	5.0	5.0	2.0	2.0	3.0
Fixed Investment	YoY	-11.6	10.0	10.0	5.0	5.0	5.0
Exports	YoY	4.4	-8.3	1.7	13.0	13.0	13.0
Imports	YoY	-16.1	15.0	15.0	15.0	15.0	15.0
CPI	YoY	4.0	6.0	8.0	1.1	1.3	1.5
Current Account	US\$ bn	176.2	113.5	87.2	12.0	20.7	31.1
	% of GDP	24.4	15.7	11.2	3.7	5.9	8.1
Fiscal Balance	% of GDP	14.3	6.6	1.5	NA	NA	NA
US Dollar Exchange Rate	Average	3.75	3.75	3.75	3.67	3.67	3.67

Sources: Haver Analytics and Citi Research

Nigeria

David Cowan
+44 (20) 7986-3285
david.cowan@citi.com

During 2H 2012, the CBN was able to keep the naira stable on the back of strong portfolio inflows. This, in part, reflects its tight monetary policy, oil prices over US\$100/barrel and the recent inclusion of Nigeria in various EM bond indexes – hence boosting portfolio inflows. Moreover, tight monetary policy has been justified by high levels of inflation and government spending, despite slowing growth. But this could become more complicated in 2013 if, as we expect, inflation starts to fall into high single digits in 2H 2013. This would justify a lower MPR (Monetary Policy Rate), but the speed and scale of easing will depend on the naira as well as the inflation outlook. Rising growth and progress with structural reform should be naira-supportive. But in the short term, the speed with which the CBN can continue to build reserves will be as, if not more, important. Further portfolio inflows should help push reserves above US\$50bn in 2013 giving the CBN scope to make modest MPR cuts. But getting the SWF established or making more payments into the Excess Crude Account would allow an even faster reserve buildup and the reserves would reflect real savings. This would allow more aggressive cuts.

South Africa

Gina Schoeman
+44 (20) 7986-5129
gina.schoeman@citi.com

In line with our view that local issues would drag H2 12 GDP lower, Q3 came in weak at 1.2%QoQ SAAR (3.4% in Q2), hit by strike-induced mining production stoppages. But, even excluding mining, the rest of the economy slowed in 3Q with notable weakening in household consumption. Stagnant job creation and higher inflation continue to squeeze real incomes while the high household debt-to-income ratio suggests consumer balance sheets remain vulnerable. Retail sales growth has slowed to 2.2% YoY in October and November 2012 compared to 7.3%YoY in late 2011. Investment has remained relatively firm (7.2%QoQ SAAR in Q3) although ongoing labour unrest and low business confidence is likely to hold back private sector investment (as suggested by lower Q3 inventory accumulation). Local production problems and low global demand means export growth remains weak and the current account deficit is still wide (at 6.4% of GDP in Q3). Continued strike action and lacklustre global demand will prevent the CA deficit narrowing significantly in 2013, in our view. Furthermore, we believe financing is questionable and will bear down on the currency (we project R8.85/USD on a 0-3 month view and R9.10/USD on a 6-12 month view). We expect that currency pass-through and rising food prices will push CPI to the top of the 3-6% target range by mid-2013, diminishing hearsay of another potential rate cut. We expect the repo rate will thus remain unchanged at 5.0% through 2013.

Figure 38. Egypt, Nigeria and South Africa — Economic Forecast, 2012-2014F

		Egypt			Nigeria			South Africa		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	2.1%	1.2%	3.5%	7.4%	6.8%	7.2%	2.4%	2.8%	3.1%
Final Domestic Demand	YoY	4.0	-0.3	2.8	NA	NA	NA	3.9	4.0	4.4
Private Consumption	YoY	2.8	-0.7	2.5	NA	NA	NA	3.0	3.1	3.4
Fixed Investment	YoY	3.8	1.8	4.7	NA	NA	NA	6.1	6.1	7.1
Exports	YoY	-1.1	1.7	6.1	NA	NA	NA	-0.6	0.2	3.1
Imports	YoY	2.7	-3.4	3.6	NA	NA	NA	7.8	4.1	6.6
CPI	YoY	7.1	12.0	12.7	12.2	10.3	9.2	5.8	6.0	5.3
Unemployment Rate	%	12.5	14.0	15.0	NA	NA	NA	25.7	26.5	27.0
Current Account	US\$ bn	-8.9	-7.0	-8.0	6.9	11.9	12.3	-23.2	-21.6	-21.9
	% of GDP	-3.6	-3.0	-3.2	2.4	3.7	3.3	-6.0	-5.6	-5.3
Fiscal Balance	% of GDP	-10.0	-9.0	-8.1	-2.8	-2.6	-2.8	-4.7	-5.0	-4.6
US Dollar Exchange Rate	Average	6.07	7.29	7.81	158.8	160.92	164.00	8.21	9.03	9.36

Sources: Haver Analytics and Citi Research

Figure 39. Selected Emerging Market Countries — Economic Forecast Overview, 2012-2014F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Asia	6.2%	6.6%	6.6%	3.4%	3.5%	3.9%	1.9%	1.5%	1.2%	-2.8%	-2.5%	-2.4%
China	7.8	7.8	7.3	2.6	2.8	3.6	2.5	2.0	1.5	-2.4	-2.0	-2.0
Hong Kong	1.4	2.8	3.5	4.1	4.0	3.7	5.0	5.6	6.2	0.8	1.1	1.1
India*	5.4	6.2	6.9	7.5	7.0	6.0	-4.0	-3.5	-3.0	-8.5	-8.0	-7.5
Indonesia	6.2	6.1	6.3	4.3	4.7	4.7	-2.6	-2.0	-1.5	-1.8	-1.5	-1.4
Korea	2.1	3.2	4.1	2.2	2.6	3.0	3.7	2.2	1.8	1.4	1.1	1.4
Malaysia	5.5	5.5	5.2	1.7	1.9	2.5	5.0	4.0	3.3	-4.5	-4.0	-3.5
Mongolia	12.3	13.8	11.0	14.3	12.0	10.0	-35.1	-22.1	3.1	-8.3	-2.4	-2.0
Philippines	6.3	6.1	6.4	3.1	3.5	3.8	2.8	2.2	1.1	-2.3	-2.1	-1.6
Singapore	1.2	2.0	4.0	4.6	3.8	3.4	16.3	13.9	13.3	1.3	1.0	1.0
Sri Lanka	6.4	7.1	7.5	7.5	7.1	6.5	-5.5	-4.7	-4.0	-6.7	-6.2	-5.5
Taiwan	1.1	3.0	3.8	1.9	2.0	1.8	8.7	8.4	8.0	-1.6	-1.2	-1.3
Thailand	4.4	4.5	4.8	3.0	3.3	4.0	0.1	-0.4	-0.7	-2.1	-2.2	-2.1
Vietnam	5.0	5.4	5.8	9.3	7.2	7.0	3.2	2.4	0.7	-5.2	-3.8	-4.0
Latin America	2.4	3.4	4.0	5.8	6.1	5.9	-1.4	-1.7	-1.7	-2.3	-2.2	-2.1
Argentina	1.9	3.0	3.0	10.0	12.6	14.5	0.7	0.4	0.2	-2.4	-2.7	-2.9
Brazil	0.9	3.1	4.2	5.4	6.1	5.5	-2.4	-2.6	-2.7	-2.6	-2.4	-2.2
Chile	5.6	4.5	5.3	3.0	2.2	2.8	-3.0	-2.4	-2.5	0.4	-0.3	-0.4
Colombia	3.9	4.5	5.5	3.2	2.4	3.3	-3.2	-3.2	-3.0	-1.4	-1.2	-0.7
Mexico	3.9	3.6	3.8	4.1	3.8	3.7	-0.8	-1.6	-1.8	-2.2	-2.1	-2.0
Panama	10.5	9.0	8.0	5.7	4.4	4.4	-8.5	-8.1	-7.8	-2.8	-3.0	-3.0
Peru	6.3	5.8	6.0	3.7	2.6	2.5	-3.5	-2.6	-2.7	0.5	-0.6	-2.0
Venezuela	5.2	2.0	2.0	21.1	24.2	24.3	5.0	4.8	6.0	-5.0	-4.0	-4.0
Europe	2.6	2.7	3.5	5.3	5.8	5.2	0.1	-0.8	-2.1	-1.5	-1.8	-2.2
Czech Republic	-1.1	-0.2	0.9	3.3	2.0	1.2	-2.0	-2.3	-3.4	-4.8	-3.1	-2.7
Hungary	-1.7	0.2	1.3	5.7	3.5	3.6	2.2	3.4	4.8	-2.8	-2.9	-3.6
Kazakhstan	5.5	4.8	4.1	5.1	6.7	6.3	7.0	4.2	2.7	1.7	3.0	2.2
Poland	1.9	1.3	2.8	3.7	2.1	2.4	-3.3	-3.0	-3.6	-3.5	-3.5	-2.8
Romania	0.4	1.7	2.9	3.3	4.6	3.5	-3.8	-4.1	-4.5	-2.2	-2.2	-2.5
Russia	3.5	3.0	3.7	5.1	6.5	5.7	4.2	2.2	-0.1	-0.4	-1.2	-2.1
Slovakia	2.4	1.0	1.7	3.6	3.0	2.5	2.2	1.0	1.0	-5.1	-3.2	-3.0
Turkey	2.8	4.0	4.3	8.9	7.4	7.3	-6.4	-6.8	-7.0	-2.0	-2.2	-2.7
Ukraine	1.2	1.4	3.8	0.6	7.9	2.7	-8.8	-6.6	-4.7	-3.3	-4.0	-3.2
Africa/Mideast	4.9	5.1	5.5	5.1	5.7	6.1	10.7	8.1	6.1	3.4	0.8	-1.3
Bahrain	2.8	3.6	4.4	1.5	3.0	2.5	11.4	3.3	-0.5	1.5	1.0	1.0
Egypt	2.1	1.2	3.5	7.1	12.0	12.7	-3.6	-3.0	-3.2	-10.0	-9.0	-8.1
Ghana	7.4	7.0	6.8	10.2	8.4	7.4	-7.3	-4.9	-6.3	-6.8	-5.5	-4.1
Iraq	9.0	12.1	9.9	6.1	6.0	6.0	22.9	19.8	15.9	5.7	1.9	0.4
Israel	3.1	3.5	2.8	1.8	2.3	2.6	-1.5	-2.1	-2.4	-3.9	-1.8	-2.5
Jordan	2.5	3.0	4.0	4.8	5.0	5.0	-19.7	-14.2	-12.0	-11.0	-10.9	-10.9
Kenya	5.0	5.8	6.0	9.7	5.8	7.6	-10.5	-9.5	-7.2	-4.7	-4.2	-4.5
Kuwait	8.4	2.6	2.6	5.0	5.0	5.0	50.6	49.1	46.4	29.4	20.3	14.8
Lebanon	3.5	4.3	4.5	6.0	5.0	5.0	-24.6	-25.4	-25.7	-6.9	-8.1	-9.1
Nigeria	7.4	6.8	7.2	12.2	10.3	9.2	2.4	3.7	3.3	-2.8	-2.6	-2.8
Oman	8.3	6.6	6.7	3.0	3.0	3.0	2.6	8.5	5.4	2.9	-1.9	-5.2
Qatar	6.0	8.3	7.2	3.0	3.0	3.0	31.7	23.2	15.0	8.6	4.4	0.5
Saudi Arabia	6.8	6.2	7.3	4.0	6.0	8.0	24.4	15.7	11.2	14.3	6.6	1.5
South Africa	2.4	2.8	3.1	5.8	6.0	5.3	-6.0	-5.6	-5.3	-4.7	-5.0	-4.6
Tanzania	6.4	6.8	7.0	15.4	7.7	5.8	-11.9	-10.2	-10.2	-6.2	-5.8	-6.0
UAE	2.1	4.6	4.9	1.1	1.3	1.5	3.7	5.9	8.1	NA	NA	NA
Uganda	4.5	5.5	6.2	14.7	5.7	5.4	-12.5	-10.7	-12.1	-5.5	-5.2	-4.5
Zambia	6.5	6.9	7.5	6.7	7.1	7.4	-3.4	0.5	3.0	-3.5	-2.5	-2.7
Total	4.7	5.2	5.5	4.4	4.6	4.7	2.0	1.2	0.7	-1.9	-2.0	-2.2

* Note: In India, policymakers look at the wholesale price index. Sources: National sources and Citi Research

Sovereign Ratings Outlook

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

Robert Crossley
(44-20) 7986-9255
robert.crossley@citi.com

Peter Goves
(44-20) 7986-3215
peter.goves@citi.com

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

Country	S&P Ratings				Moody's Ratings			
	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg W)	Aa1 ↓
Canada	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3	A1 ↓
Germany	AAA	Stable	AAA	AA+ ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
France	AA+	Neg	AA+ (Neg)	AA ↓	Aa1	Neg	Aa1 (Neg)	Aa2 ↓
Italy	BBB+	Neg	BBB+ (Neg)	SD* ↓↓↓↓	Baa2	Neg	Baa2 (Neg)	C* ↓↓↓↓
Spain	BBB-	Neg	BBB- (Neg)	SD* ↓↓↓↓	Baa3	Neg	Baa3 (Neg)	C* ↓↓↓↓
Austria	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Belgium	AA	Neg	AA (Neg)	AA- ↓	Aa3	Neg	Aa3 (Neg)	A1 ↓
Finland	AAA	Stable	AAA	AA+ ↓	Aaa	Stable	Aaa	Aaa (Neg)
Greece	B-	Stable	B-	SD* ↓↓↓↓	C		C	C* ↓↓↓↓
Ireland	BBB+	Neg	BBB+ (Neg)	SD* ↓↓↓↓	Ba1	Neg	Ba1 (Neg)	C* ↓↓↓↓
Netherlands	AAA	Neg	AAA (Neg W)	AA+ ↓	Aaa	Neg	Aaa (Neg W)	Aa1 ↓
Portugal	BB	Neg	BB- ↓	SD* ↓↓↓↓	Ba3	Neg	B1 ↓	C* ↓↓↓↓
UK	AAA	Neg	AA+ ↓	AA+ ↓	Aaa	Neg	Aa1 ↓	Aa1 ↓
Switzerland	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Sweden	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Denmark	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Norway	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa

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

* Based on our economists longer term (2015-2017) view, Citi expects Greece and Portugal to remain sub-investment grade in coming years, and for Italy, Spain and Ireland to fall to sub-investment grade ratings (Ireland currently is sub-investment grade with Moody's but not S&P), and this may well include a period of "selective default" as determined by the rating agencies around the time of debt restructuring. Following the restructuring, we expect such sovereigns to attain a mid sub-IG rating.

Expected Ratings Issues

EMU -- rating concerns have receded (for the near-term)

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

Peter Goves
(44-20) 7986-3215
peter.goves@citi.com

EMU rating concerns have receded in the near-term, in our view, with the clear exception of Cyprus. In general, after the various downgrades by Moody's/S&P in H2 last year (which included Spain, Italy, France), many EMU ratings have recently been affirmed (such as Sweden, the Netherlands and Ireland). In the case of Finland, S&P "upgraded" the sovereign from AAA Negative Outlook to AAA Stable on 4th January. S&P cited Finland's *"high level of prosperity, strong government and external balance sheets, and broad-based commitment to prudent fiscal and structural policies"* in relation to its Stable outlook.

Going forward, the context of relatively low and rallying EMU bond yields provides a supportive backdrop for many periphery countries' ratings. This is because of the crucial link between market access and (IG) ratings especially for Moody's. At present, market access seems reasonably secure for Spain and Italy, underpinned in particular by the prospect of OMT. Separately, however, we maintain our previous view that downgrade risks could emerge again for Portugal in the near-term (next 2-3 quarters). This is largely based on ongoing economic weakness in terms of the fiscal and growth outlook (see page 18).

There are of course key risks to our near-term base case, most notably the trajectory of Spanish fundamentals. Although Moody's expects Spain to return to positive growth in 2014 (Citi expects -2.0%), it also states *"risks to its baseline scenario are high and skewed to the downside"* (14th Jan). Separately, the extent to which market access would be preserved under an OMT activation scenario remains unclear. Should market access become severely impaired, then this is likely to be interpreted negatively by Moody's for example. Furthermore, from Citi's point of view, our economists continue to expect some form of debt restructuring for at least five euro area sovereigns including: Greece, Ireland, Italy, Portugal and Spain over the longer-term (2015-2017) with Grexit remaining the baseline sometime in 2014 ([Prospects for Economies and Markets in 2013 and Beyond](#)).

We expect the UK to be downgraded in 2013

S&P was the last rating agency to put the UK on AAA Negative Outlook (14th December 2012). Drivers included the deterioration in the debt/GDP trends (acknowledged in the Autumn Statement), the erosion of the government's debt target and risks of further deterioration if recovery is *"delayed and uneven"* or there is a *"weakening of political commitment to consolidation"*. With the public debt/GDP ratio set to surge further in coming years, we think the UK will lose its AAA rating by at least one of the major rating agencies over the course of 2013, most likely soon after the March Budget.

US rating and the debt trajectory

Our US economists have increased their forecast for 2013 GDP growth for the four quarters of 2013 from 2% to 2.4%, citing improvements in private sector demand and the supportive financial backdrop (see page 14). Improvement to the US growth outlook will be looked upon favourably by rating agencies. However, growth is but one factor in determining debt sustainability ([US Rates & MBS Weekly](#)). Moody's has indicated that (11 September) *"the direction of the US rating and its outlook will most likely be determined by the outcome of budgetary negotiations during the course of 2013"*. More recently, Moody's stated that the recent fiscal package removes some uncertainty but *"does not...provide a meaningful improvement in the government debt ratios over even a longer time horizon"*. Citi continues to expect Moody's to downgrade the US to Aa1 over the next 2-4 years.

Interest Rate and Bond Yield Outlook

Robert Crossley
(44-20) 7986 9255
robert.crossley@citi.com

Jamie Searle
(44-20) 986-3568
jamie.searle@citi.com

The outlook for global bond yields is broadly unchanged from last month, in our view. We continue to expect yields to remain anchored at low levels for the foreseeable future. The divergence in economic prospects between the US and Europe is likely to drive significant yield spread widening between these markets. While improving economic prospects are likely to push US Treasury yields higher in 2013, especially in H2, core European yields are likely to be pinned at low levels by the ongoing EMU crisis. Specifically, we expect OMT activation from both Spain and Italy during this year and Grexit most likely in 1Q14. We assume the latter, in particular, would trigger a strong flight-to-quality move, as reflected in our 1.25% yield forecast for Bunds in 1Q14.

Policy rates are likely to be on hold over the forecast horizon except in the euro area where further cuts are forecast. Consequently, 2s10s curve are likely to remain directional in all the major markets; bull flattening, bear steepening. Citi expects two further cuts from the ECB taking the refi rate to 0.25% (and a cut in the deposit rate into negative territory by year-end). Schatz yields are likely to move back towards 0% and are likely to turn negative again during periods of heightened market stress.

Peripheral bond markets continue to perform well, with fundamental concerns taking a backseat for now. In this risk-on environment, we believe the yield on offer from alternatives to Bunds (peripheral or core) will continue to appear attractive near term. However, our forecasts reflect the view that market stress in these markets is likely to resurface in H1, ultimately resulting in OMT activation. Potential triggers for the stress includes the election outcome in Italy, weak economic data, or perhaps negative news on banks and recapitalization. Irrespective of the trigger, we forecast a widening in the 10yr Bono-Bund and 10yr BTP-Bund spread to around 400bp and 350bp, respectively, before OMT activation triggers a modest re-tightening and then stabilization. Implicit in these forecasts is a view that OMT activation will not drive spreads significantly lower on a sustained basis from recent levels. Rather, OMT is likely to be used as a mechanism to prevent yields from spiraling out of control and becoming part of the problem. Ultimately, the market will determine the level of yields below the de facto ceiling imposed by the OMT. Away from the peripheral markets, the non-German core is unlikely to be immune with the likes of France and the Netherlands also likely to face wider spreads in 2013.

In the UK, gilt yields have moved up to 2.0%-2.1% in the 10yr sector. Our forecasts continue to reflect a view that gilt yields will remain anchored at low levels for the foreseeable future. Economic data is likely to disappoint in Q1 and our economists continue to expect QE to be restarted in H1. The UK probably will lose its AAA-rating from at least one rating agency, but we doubt that this will have a lasting impact on yields. The fundamental outlook suggests gilts should outperform on a cross-market basis and we forecast a narrowing of the 10yr gilt-Bund spread to about 25bp in 2Q. Diverging economic prospects are also likely to result in 10yr gilts trading significantly through Treasuries by year-end. We have revised up our break-even inflation forecasts following the decision by the ONS not to alter the RPI calculation. Following the initial re-pricing, break-evens are likely to become much more directional from here.

Figure 41. Interest Rate and Bond Market Forecasts as of 23 January 2013

		Quarterly Average					
	Current	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Libor	0.30	0.30	0.35	0.40	0.45	0.55	0.60
2 Year Treasury Yield	0.25	0.25	0.35	0.45	0.55	0.70	0.85
5 Year Treasury Yield	0.76	0.75	0.90	1.05	1.20	1.45	1.60
10 Year Treasury Yield	1.82	1.80	2.00	2.25	2.60	2.75	2.85
30 Year Treasury Yield	3.03	2.95	3.20	3.50	3.95	4.05	4.15
2-10 Year Treasury Curve	157	155	165	180	205	205	195
2 Year Swap Spread (Swap Less Govt), bp	13	15	20	20	20	20	20
10 Year Swap Spread (Swap Less Govt), bp	3	10	10	7	5	0	0
30 Year Swap Spread (Swap Less Govt), bp	-20	-35	-35	-40	-40	-45	-45
30 Year Mortgage Yield	3.50	3.50	3.70	3.85	4.05	4.35	4.40
10 Year Breakeven Inflation	252	250	250	245	240	240	240
Euro Area							
Policy Rate	0.75	0.75	0.50	0.25	0.25	0.25	0.25
Overnight Rate (EONIA)	0.07	0.07	0.07	-0.05	-0.05	-0.05	-0.05
3-Month Libor	0.14	0.15	0.10	0.05	0.00	0.00	0.00
2 Year Schatz Yield	0.21	0.15	0.10	0.05	0.00	0.05	0.05
5 Year Bobl Yield	0.68	0.70	0.50	0.75	0.50	0.55	0.60
10 Year Bund Yield	1.55	1.55	1.55	1.75	1.50	1.25	1.50
30 Year Bund Yield	2.38	2.40	2.10	2.40	2.20	2.20	2.30
2-10 Year Bund Curve	134	140	145	170	150	120	145
10 Year BTP-Bund Spread	259	280	350	275	375	375	375
10 Year Bono-Bund Spread	352	360	400	300	400	400	400
2 Year BTP-Schatz Spread	126	130	230	230	230	230	230
2 Year Bono Schatz Spread	242	240	240	240	240	240	240
10 Year OAT-Bund Spread	57	60	70	70	80	100	100
10 Year Swap Spread (Swap Less Govt.), bp	17	20	25	20	35	45	45
10 Year Breakeven Inflation	182	180	180	190	180	170	180
Japan							
Policy Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.17	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Treasury Yield	0.08	0.05	0.05	0.05	0.10	0.10	0.05
5 Year Treasury Yield	0.16	0.15	0.20	0.15	0.25	0.25	0.20
10 Year Treasury Yield	0.73	0.80	0.95	0.85	1.05	1.05	0.95
30 Year Treasury Yield	1.95	2.05	2.15	2.05	2.20	2.20	2.15
2-10 Year Treasury Curve	65	75	90	80	95	95	90
2 Year Swap Spread (Swap Less Govt.), bp	13	13	15	14	18	18	15
10 Year Swap Spread (Swap Less Govt.), bp	0	2	5	4	7	7	5
UK							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-Month Libor	0.51	0.53	0.53	0.53	0.53	0.55	0.55
2 Year Treasury Yield	0.41	0.35	0.30	0.40	0.30	0.15	0.30
5 Year Treasury Yield	0.98	0.85	0.80	0.95	0.80	0.60	0.80
10 Year Treasury Yield	2.00	1.90	1.80	2.00	1.80	1.65	1.80
30 Year Treasury Yield	3.29	3.20	3.00	3.15	3.05	2.90	3.05
2-10 Year Treasury Curve	159	155	150	160	150	150	150
10 Year Swap Spread (Swap Less Govt.), bp	3	10	15	10	15	25	15
10 Year Breakeven Inflation	293	290	285	295	285	275	285
Australia							
Policy Rate	3.00	2.75	2.50	2.50	2.50	2.50	2.75
3-Month Libor	2.99	2.80	2.60	2.60	2.70	2.70	2.90
2 Year Treasury Yield	2.74	2.70	2.45	2.50	2.60	2.60	2.80
5 Year Treasury Yield	2.92	2.80	2.60	2.70	2.80	2.90	3.10
10 Year Treasury Yield	3.39	3.20	3.00	3.15	3.30	3.50	3.85
2-10 Year Treasury Curve	65	50	55	65	70	90	105
10 Year Swap Spread (Swap Less Govt.), bp	72	60	60	65	65	75	75

Source: Citi Research

Commodities 2013 — The New Abnormal

Aakash Doshi
+1-212-723-3872
aakash.doshi@citi.com

Daniel P Ahn
+1-212-723-3612
daniel.p.ahn@citi.com

Citi continues to believe the commodities super-cycle is over and that market conditions approximating those of the last decade won't return in 2013 or any time soon. There are both supply and demand aspects to this unfolding paradigm. On the demand side are two structural shifts in China—the most important global commodity consumer. First is the shift from robust 10%+ annual GDP growth of the past three decades to a significantly lower 6-7% annual rate in the medium-term and to below 6% by the end of this decade. The second structural shift in China is that its growth is likely to be much less energy and commodity-intensive than in the past, driven as it was by substantial increases in fixed asset investment and industrial production. At the same time that demand has been waning — and is likely to continue to do so over time — supply in many commodities has been waxing. What first occurred in US natural gas — a marshalling of capital and a new supply surplus — is being replicated across most commodities, including critical industrial and bulk commodities and in other longer-lead time products such as crude oil.

Citi continues to expect that market balances will dominate deferred price levels even though geopolitical and headline risk will add noise to the front of the forward curve causing prices to diverge from supply/demand fundamentals. This is particularly true for petroleum markets, which have been prone to 2-m b/d of annual supply disruption in recent years from Libya, Iran and non-OPEC sources. Indeed, supply risks in oil markets have disguised the amount to which output is increasing. Weather and drought-risk in the US farm-belt will also remain a critical factor in determining the extent to which global inventories could build after a difficult 2012.

In that context, commodity outlooks for 2013 appear more subdued for industrial commodities and mixed for agriculture. Energy prices are likely to struggle and crude oil should weaken in 2013 both year-on-year and versus the current calendar strip with a plethora of factors to watch out for in the coming months including pipeline expansions that will impact spreads and 'diffs', Iranian sanctions, a post-Chavez Venezuela and shaky Chinese consumption.

US natural gas prices have once again fallen from above \$4/MMBtu to the low-to-mid-\$3 neighborhood. The winter has been mild so far, though not as mild as last winter. However, gas demand has fallen from expectations during this important peak demand season, leaving more gas than needed in storage and weighing on prices. The strong production that, over the past few years, has led to an oversupplied market has not shown signs of a sharp reversal, despite much lower gas drilling activities throughout 2012. A lacklustre US economy could limit power demand growth to perhaps flat versus 2012. Along with stronger nuclear and hydro generation y/y, gas-fired generation is expected to give up some of its gains in generation share. Hence, the growth of gas demand for power generation and industrials should remain relatively weak this year. The anticipated surge in demand starting in 2015 and beyond should begin with LNG exports and follow by large-scale industrial facilities coming online in 2016 and 2017. The latter should boost base-load power demand and overall economic activity.

The North American crude glut—which has been responsible for the blow-out in the WTI-Brent price spread to over \$20 per barrel levels—is moving one step closer to Brent as chunky new pipeline capacity to debottleneck the US midcontinent comes online in the first half of 2013 which should narrow the WTI-Brent spread to \$14/bbl levels this year. This is also a big step towards backing out light sweet crude imports to the US (particularly those from West Africa), and the beginning of meaningful pressures for the US to export (meaning US Gulf Coast crude prices

move to a "permanent" structural discount to Brent). This is bearish Atlantic Basin crudes. Meanwhile, Brent is under siege; European refining margins are dismal and refiners are cutting runs, while North Sea February loadings are looking better, and South Korean refineries, regular buyers of North Sea barrels, are going into maintenance in March. But the bears have company, with Brent prices remaining remarkably stable at ~\$110/bbl. Our 2013 supply-demand balances, as with the official energy watchdogs like the IEA, see the potential for a supply overhang this year, leading to less of a need for OPEC oil. But Saudi Arabia reminded markets that it could cut back on production: its exports fell at the end of 2012, though this looks as much to do with reduced domestic seasonal demand. Meanwhile, the Iran-Israel standoff remains a real concern and could be underpriced.

For base metals, the fundamental themes from 2012 should be the same for 2013. In copper, there are clear signs that the production struggles that miners faced are an issue of the past. Q2 and Q3 2012 copper mine output showed accelerated growth. Imminent Q4 results should imply an ongoing trend. Indeed, copper mine supply is expected to grow by around 6-7% in 2013, following 4% growth in 2012. Given that prices trends have been driven by supply constraint rather than strong demand growth, the acceleration in mine supply removes a key bull argument for copper. Creating an expectation for Chinese stocking and destocking is key in the year ahead, with very high refined copper inventories in China set to reduce import requirements. Estimates suggest Chinese bonded warehouse stocks are in excess of 1-mt, while Shanghai Exchange stocks and LME warehouses in Asia have seen copper inventory rise sharply through December. For aluminum, the expectation of strong double digit (11%) consumption growth in China through 2013 looks bullish in isolation. However, once the surge in production from the building of smelting capacity in lower energy cost Western provinces is taken into account, China looks more than self-sufficient in terms of aluminum supply through 2013 and beyond. The operation of LME warehousing in creating very long load out queues for metal, and the continued impact of investor demand for physical metal to tie up in contango financing arrangements, will likely remain key to market dynamics, driving up physical metal premiums, providing LME price support and enabling the perpetuation of aluminum oversupply. The largely sideways pricing pattern seen through much of 2012 is expected to continue through 2013.

Among the precious metals, gold has struggled to sustain itself beyond the \$1800 technical resistance level despite seeming conducive "macro-financial" conditions such as low real interest rates and fiscal uncertainty. Instead, foreign exchange rates remain by far the most important driver of dollar-denominated gold prices. Given that Citi sees a substantial strengthening of the US dollar against the euro and the yen to the end of 2013, nominal gold prices should remain under considerable pressure.

Meanwhile, physical balances and financial demand for gold remains mixed. Gold buying from China and India closed Q4 2012 with reasonable signs of health but the high rupee-denominated gold prices and government tariffs policies are clouding Indian jewelry demand. Financial demand for gold from central banks has fallen from the peak of 515 tons (net) in 2009 but is a still respectable 274 tons in 2012. Private demand through indices and ETFs has also put in a record \$6.5bn in gold throughout 2012 though there are signs of a tail-off as the market absorbs QE3.

Markets have also drawn attention to the possibility of a reclassification of gold as a Tier 1 asset under Basel III regulations, potentially increasing the attractiveness of gold on financial institution balance sheets. However, nothing definite has yet emerged on gold's status and questions remain over its relative attractiveness compared to cash or T-bills. On the supply side, labour unrest in South Africa has

raised the spectre of further disruptions to mining supply in the region, adding some bullish colour on gold.

In all, gold should remain relatively range-bound between the \$1550 and \$1800 price range, given conflicting bullish and bearish pressures. In the short-term, the bearish conditions from a strengthening US dollar might dominate and Citi has revised down its 2013 gold forecast from \$1749 to \$1675. But 2014's forecast of \$1655 remains unchanged.

Grains might see a fillip of 2012 this year with strength in the first few quarters perhaps weakening by the end of year. Elevated old crop prices are likely to persist during 1H'13 and remains consistent with Citi published views since 3Q'12. Further down the curve, new crop prices are poised to ease—perhaps measurably—during the 2013 US harvest given expectations of another record year of row crop planted acres, back-to-trend yields and new supply sources coming online from Latin America. Soybeans should falter first, beginning in 2Q'13, as Brazil looks to ramp-up its loading facilities on a record bean harvest following its record export volumes of maize throughout 2H'12. Global corn markets appear tight and are likely to remain so through 3Q'13 despite sluggish export sales and demand destruction (but prices by year-end could fall hard on favourable weather supporting a one-third increase in US output y/y to north of 14-bn bushels). Wheat prices are likely to follow the lead of corn and remain elevated in 2013. To be sure, adverse weather and any negative feedback loop of poor soil moisture must be monitored. Weak sowing conditions across the US farm-belt are the key risk for prices although Citi's baseline does not assume a repeat of the 2012 drought and unlike the industrial commodities that might strengthen into the end of 2013—crop prices might weaken.

Figure 42. Commodity Price Forecasts*

		Point Prices													
		0-3M	6-12M	5Y Cyclical	Q1 2012	Q2 2012	Q3 2012	Q4 2012E	2012E	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E	2013E	2014E
Energy															
NYMEX WTI	USD/bbl	85.0	85.0	81.0	103.0	93.3	92.2	88.2	94.1	85.0	85.0	85.0	85.0	85.0	83.0
ICE Brent	USD/bbl	105.0	97.0	85.0	118.4	108.8	109.4	110.1	111.7	105.0	95.0	100.0	95.0	99.0	93.0
Henry Hub Natural Gas	USD/MMBtu	3.50	3.70	N/A	2.47	2.27	2.87	3.54	2.83	3.50	3.50	3.60	3.70	3.55	4.10
Base Metals															
LME Aluminum	USD/MT	2,100	2,125	2,200	2,216	2,019	1,944	2,017	2,049	2,100	2,050	2,100	2,150	2,100	2,175
LME Copper	USD/MT	8,160	7,850	6,200	8,314	7,833	7,711	7,921	7,945	8,160	8,000	7,800	7,900	7,965	7,775
LME Lead	USD/MT	2,150	2,075	2,200	2,118	1,987	1,984	2,200	2,072	2,250	2,050	2,000	2,150	2,115	2,200
LME Nickel	USD/MT	19,000	19,775	20,000	19,721	17,228	16,383	17,036	17,592	19,000	21,000	19,000	20,550	19,890	22,725
LME Tin	USD/MT	25,000	22,500	18,600	22,986	20,619	19,281	21,547	21,108	23,500	22,500	22,000	23,000	22,750	22,875
LME Zinc	USD/MT	1,950	2,090	2,100	2,040	1,933	1,902	1,979	1,963	2,050	2,000	2,080	2,100	2,060	2,125
Precious Metals															
COMEX Gold	USD/T. oz	1,700	1,650	1,050	1,691	1,613	1,654	1,718	1,669	1,705	1,685	1,665	1,650	1,675	1,655
Silver	USD/T. oz	33	30	16.5	32.6	29.6	29.9	32.6	31.2	32.5	31.5	30.0	30.0	31.0	26.5
Platinum	USD/T. oz	1,675	1,715	1,531	1,604	1,505	1,500	1,600	1,552	1,675	1,700	1,700	1,725	1,700	1,775
Palladium	USD/T. oz	725	810	680	683	630	613	653	645	725	755	790	825	775	925
Bulk Commodities															
Hard Coking Coal (benchmark Asia)	USD/MT	165	180	200	235	215	225	170	211	165	170	180	180	174	213
Thermal Coal Asia (NEWC)	USD/MT	95	103	105	113	88	88	86	94	95	95	100	105	99	111
Iron Ore Spot (TSI)	USD/MT	135	113	81	142	139	112	121	128	135	120	110	115	120	122
Agriculture															
CBOT Corn	USD/bu	750	625	N/A	641	618	783	737	695	770	750	655	620	700	625
CBOT Wheat	USD/bu	800	850	N/A	643	641	870	846	751	900	900	825	825	860	775
CBOT Soybeans	USD/bu	1,400	1,275	N/A	1,272	1,426	1,675	1,485	1,466	1,625	1,550	1,430	1,400	1,500	1,335
CBOT Rice	USD/cwt	15.2	15.3	N/A	14.3	14.8	15.3	15.1	14.9	15.2	15.2	15.3	15.5	15.3	N/A
NYB-ICE Cotton	USD/lb	67	68	N/A	93	81	73	73	80	65	65	70	70	68	N/A
Sugar#11	USD/lb	20.0	21.0	N/A	24.5	21.2	21.0	19.6	21.6	21.0	21.0	21.0	21.0	21.0	N/A
ICE Coffee	USD/lb	160	167	N/A	205	171	172	152	175	160	165	165	170	165	N/A
ICE Cocoa	USD/MT	2,500	2,510	N/A	2,308	2,221	2,440	2,420	2,348	2,540	2,500	2,500	2,520	2,515	N/A

Source: Citi Research, *subject to revision; 'point-prices' reflect updated views

Figure 43. Citi Global Economics Team For Informational Purposes Only

	Name	Office Number	Email Address	Responsibilities
NEW YORK	North America			
	Nathan Sheets ³	(1-212) 816-9297	nathan.sheets@citi.com	Global Head of International Economics
	Robert DiClemente ³	(1-212) 816-7942	robert.diclemente@citi.com	Head, North America
	Peter D'Antonio ³	(1-212) 816-9889	peter.dantonio@citi.com	U.S. Forecast
	Steven Wieting ³	(1-212) 816-7148	steven.wieting@citi.com	Equity Themes
	Dana Peterson ³	(1-212) 816-3549	dana.peterson@citi.com	U.S. Forecast and Canada
	Matt Dabrowski ³	(1-716) 730-7407	matt.dabrowski@citi.com	Global Political Analysis
	Emerging Markets			
	Guillermo Mondino ³	(1-212) 816-6499	guillermo.mondino@citi.com	Head, EM Economics and Strategy Research
	Joaquin Cottani ³	(1-212) 816-2735	joaquin.cottani@citi.com	Head, Latin America
LONDON	Jorge Pastrana ²	(1-212) 816-5728	jorge.armando.pastranavillagas@citi.com	Caribbean and Central America
	Camilo González García ²	(1-212) 816-9901	camilo.gonzalezgarcia@citi.com	Argentina, Chile, Peru, Caribbean, Central America
	Willem Buitert ¹	(44-20) 7986-5944	willem.buitert@citi.com	Chief Economist
	Tina Fordham ¹	(44-20) 7986-9860	tina.fordham@citi.com	Global Political Analysis
	Ebrahim Rahbari ¹	(44-20) 7986-6522	ebrahim.rahbari@citi.com	Global Economics
	Western Europe			
	Michael Saunders ¹	(44-20) 7986-3299	michael.saunders@citi.com	Head, Western Europe and U.K. Coverage
	Jürgen Michels ¹	(44-20) 7986-3294	juergen.michels@citi.com	Euro Area (Germany) and ECB Specialist
	Guillaume Menuet ¹	(44-20) 7986-1314	guillaume.menuet@citi.com	Euro Area (France, Belgium)
	Giada Giani ¹	(44-20) 7986-3281	giada.giani@citi.com	Euro Area (Italy, Spain, Greece, Portugal)
TOKYO	Tina Mortensen ¹	(44-20) 7986-3284	tina.mortensen@citi.com	Nordics
	Ann O'Kelly ¹	(44-20) 7986-3297	ann.okelly@citi.com	Europe
	Emerging Markets			
	David Lubin ¹	(44-20) 7986-3302	david.p.lubin@citi.com	Head, Emerging Markets and CEEMEA
	David Cowan ¹	(44-20) 7986-3285	david.cowan@citi.com	Africa
	Gina Schoeman ¹	(44-20) 7986-5129	gina.schoeman@citi.com	South Africa
	Elina Ribakova ¹	(44-20) 7986-4356	elina.ribakova@citi.com	Russia, Kazakhstan, Ukraine
	Kiichi Murashima ²	(813) 6270-4980	kiichi.murashima@citi.com	Head, Japan
	Naoki Iizuka ²	(813) 6270-4997	naoki.iizuka@citi.com	Japan
SYDNEY	Paul Brennan ¹⁵	(612) 8225-4899	paul.brennan@citi.com	Head, Australia, New Zealand
	Josh Williamson ¹⁵	(612) 8225-4904	josh.williamson@citi.com	Australia, New Zealand
BEIJING	Enjiang Cheng ¹⁰	(86) 10 5937-6038	enjiang.cheng@citi.com	China
BOGOTA	Munir Jalil ¹²	(57) (1) 639-4195	munir.jalil@citi.com	Colombia, Venezuela
BUDAPEST	Eszter Gargyan ⁷	(36) 1 374-5559	eszter.gargyan@citi.com	Hungary
DUBAI	Farouk Soussa ¹	(971) (4) 509-9750	farouk.soussa@citi.com	Gulf, Middle East, Levant
HONG KONG	Johanna Chua ⁴	(852) 2501-2357	johanna.chua@citi.com	Head, Emerging Asia, Sri Lanka, Vietnam
	Minggao Shen ⁴	(852) 2501-2485	minggao.shen@citi.com	China
	Shuang Ding ⁴	(852) 2501-2769	shuang.ding@citi.com	China
	Adrienne Lui ⁴	(852) 2501-2753	adrienne.lui@citi.com	Hong Kong, Mongolia, Taiwan
ISTANBUL	Ilker Domac ⁶	(90) 212 319-4623	ilker.domac@citi.com	Turkey, Romania, Balkans
	Gultekin Isiklar ⁶	(90) 212 319-4915	gultekin.isiklar@citi.com	Turkey, Romania, Balkans
JAKARTA	Helmi Arman ²¹	62-21-5290-8960	helmi.arman@citi.com	Indonesia
MANILA	Jun Trinidad ¹⁷	(63) (2) 894-7270	jun.trinidad@citi.com	Philippines, Thailand
MEXICO CITY	Sergio Luna Martinez ⁴	(52) (55) 2226-6799	sluna@banamex.com	Mexico
MOSCOW	Natalia Novikova ¹⁸			Russia, Kazakhstan, Ukraine
MUMBAI	Rohini Malkani ⁸	(91) 22-6631-9876	rohini.malkani@citi.com	India
PRAGUE	Jaromir Sindel ¹³	(42) (02) 3306-1485	jaromir.sindel@citi.com	Czech Republic, Slovakia
SAO PAULO	Marcelo Kfoury ¹⁹	(55) (11) 4009-3470	marcelo.kfoury@citi.com	Brazil
SEOUL	Jaechul Chang ¹⁶	(82) 2 2077-4160	jaechul.chang@citi.com	Korea
SINGAPORE	Kit Wei Zheng ²⁰	(65) 6657-5079	kit.wei.zheng@citi.com	ASEAN, Singapore, Malaysia
WARSAW	Piotr Kalisz ⁷	(48) (22) 692-9633	piotr.kalisz@citi.com	Head, CEE and Poland
	Cezary Chrapek ⁷	(48) (22) 692-9421	cezary.chrapek@citi.com	Poland

1 Citigroup Global Markets Ltd; 2 Citigroup Global Markets Japan Inc.; 3 Citigroup Global Markets Inc; 4 Citigroup Global Markets Asia; 5 Citigroup Global Markets (Pty) Ltd; 6 Citibank Anonim Sirketi; 7 Bank Handlowy w Warszawie; 8 Citigroup Global Markets India Private Limited; 9 Citigroup Global Markets India Private Limited; 10 Citibank (China) Co. Ltd; 11 Acciones y Valores Banamex, S.A. de C.V.; 12 Citibank Taiwan Ltd; 13 Banco Citibank S.A.; 14 Citibank Europe plc Czech Republic; 15 Citigroup Pty Limited; 16 Citigroup Global Markets Korea Securities Ltd; 17 Citibank N.A. Philippines; 18 ZAO Citibank; 19 Banco Citibank S.A.; 20 Citigroup Global Markets Singapore PTE LIMITED; 21 PT Citigroup Securities Indonesia

NON-US RESEARCH ANALYST DISCLOSURES: The non-US research analysts listed above (i.e., the research analysts listed above 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. Unless indicated in Appendix A-1 of this document or any of the referenced documents, the analysts listed above have not contributed to this document or any of the referenced documents.

SALES AND TRADING TEAMS: People designated as working in the sales or trading departments of Citi are not independent research analysts and have not contributed to this document or any of the referenced documents. Source: Citi Research.

Notes

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	Willem Buiter; Michael Saunders; David Lubin; Peter Goves; Jürgen Michels; Guillaume Menuet; Giada Giani; David Cowan; Tina Mortensen; Elina Ribakova; Jamie Searle; Robert Crossley; Farouk Soussa
Citigroup Global Markets Inc	Nathan Sheets; Robert V DiClemente; Joaquin A Cottani; Daniel P Ahn; Aakash Doshi; Dana M Peterson; Peter D'Antonio; Steven C Wieting
Citigroup Global Markets Japan Inc.	Kiichi Murashima; Naoki Iizuka
Citigroup Global Markets Asia	Johanna Chua; Adrienne Lui; Minggao Shen; Shuang Ding
Citibank Europe plc Czech Republic	Jaromir Sindel
Bank Handlowy w Warszawie	Piotr Kalisz; Cezary Chrapek
Citibank Anonim Sirketi	Ilker Domac; Gultekin Isiklar
Citicorp Pty Ltd	Paul Brennan; Josh Williamson
Acciones y Valores Banamex, S.A. de C.V	Sergio Luna
Citigroup Global Markets India Private Limited	Rohini Malkani
Citibank (China) Co. Ltd.	Enjiang Cheng
Citibank Europe Plc Hungary	Eszter Gargyan
PT Citigroup Securities Indonesia	Helmi Arman
Banco Citibank S.A.	Marcelo Kfoury
Citigroup Global Markets Singapore PTE LIMITED	Wei Zheng Kit
Citibank Korea Inc.	Jaechul Chang
Citibank - Colombia S.A.	Munir Jalil

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 Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to Citi Research research reports.

Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

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 Citi Global Markets Australia Pty Ltd. (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 made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. 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. Bakhtawar, Nariman Point, Mumbai 400-021. 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 and regulated by Financial Services Authority. 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 Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 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 **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. 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. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangkok, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Büyükdere 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 and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA 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 regulated by Financial Services Authority. 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/epublic/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 may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. 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. With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

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 Reuters and Datastream.

© 2013 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, disseminated 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