

## ECB to Start ABS and Covered Bonds Purchases in Q4

Summary | Today's News in Detail | Latest Issues of Sovereign Debt Update | Macroeconomic Forecasts | Recent Research

### Summary

**ECB meeting recap: the ECB kept all of its policy rates unchanged and announced that it will start buying ABS and covered bonds starting in Q4**, even though it did not provide a target size for its monthly/quarterly or total purchases. Comment: even though the ECB did not reinforce its recent focus on balance sheet expansion and provided perhaps fewer details than some had hoped for, this should not be read as backtracking in our view. In particular, ECB President Draghi indicated several times that the ECB is concerned that inflation undershoots may continue, e.g. by highlighting that recent inflation undershoots had been driven by the weak economy (rather than falling commodity prices or the strong exchange rate). In our view, continued inflation undershoots relative to the ECB's forecasts will trigger further easing and we expect a government-bond focused QE programme to be announced in Q4 or early in 2015. See also **ECB: 'Let's See' First, But Leaves Door Open To QE**.

**Italy – government to provide guarantees to support ECB purchases of ABS mezzanine tranches**, reports *ISole24Ore*.

**Greece – ABS/covered bond purchases by ECB only in case of EU/IMF programme**. Draghi confirmed yesterday that the ECB will buy ABS/covered bonds originating from Greek assets, even if they do not meet the minimum rating criteria of BBB-, but only if the country is under an EU/IMF programme, thus jeopardising the government's intention to exit all bailout credit lines (EFSF and IMF) in December.

**EU's Moscovici tells MEPs he will apply the EU budgetary rules to the letter** and will not give France any special dispensation

**German FM Schäuble calls for EU Fiscal Commissioner with power to block national budgets** and also for limited Treaty Change.

**German MPs criticise ECB decision to buy ABS**, as it transfers risks from banks to taxpayers.

**France: Hollande says 1% GDP growth in 2015 is realistic, while Italy's Renzi supports Paris decision to slow the pace of deficit reduction.**

**Greece – DIMAR to vote against presidential candidate, early election in 2015 increasingly likely** due to the lack of a qualified majority for the governing coalition to elect its presidential candidate.

**Greece – confidence vote planned for next Friday**, government reportedly confident of passing it.

3 October 2014

Ebrahim Rahbari  
+44-20-7986-6522

Guillaume Menuet  
+44-20-7986-1314

Giada Giani  
+44-20-7986-3281

With thanks to Antonio Montilla and Ann O'Kelly

Economics

Western Europe

Industrialised G7 Countries

### Recent Research

#### ECB: 'Let's See' First, But Leaves Door Open To QE

2 October 2014

ECB does not reinforce focus on balance sheet increase, but that should not be read as backtracking, in our view. We continue to expect a QE programme, mostly focused on government bonds, to be announced in late-2014 or early 2015. ABSPP and CBPP3 details: i) no details on overall or monthly/quarterly target size, ii) minimum programme duration of two years, iii) minimum rating of BBB-, iv) for Greek and Cypriot assets, the rating threshold does not apply as long as they are in an EU/IMF programme (as for the ECB's repo operations). Restrictions also apply to junior ABS tranches, retained ABS and ABS not based on non-financial sector private loans. Draghi highlighted that recent inflation undershoots have been driven by weak aggregate demand. This suggests that

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

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

## Today's News in Detail

**ECB recap: At its October meeting, the ECB kept all of its policy rates unchanged and did not provide a target size for its monthly/quarterly or total ABS and covered bonds purchases.** It announced that covered bonds purchases would begin in the second half of October and ABS purchases at some point in Q4. Among the criteria for ABS and covered bonds to be eligible for ECB purchases is a minimum rating of BBB-. But the ECB noted that it will exempt Greek and Cypriot ABS and covered bonds from this rating requirement, as long as they are in an EU/IMF programme (consistent with the temporary rules it applies to Greek and Cypriot sovereign collateral in its repo operations). The ECB also announced that it will buy senior ABS tranches (based on non-financial private sector loans) as well as “*guaranteed mezzanine tranches*”, with details on the eligibility criteria for the guarantees to be announced at a later stage. It is possible, in our view, that only some Eurozone countries will choose to guarantee mezzanine ABS tranches, in which case the ECB would only be ready to buy mezzanine tranches from these countries (also see story on Italy below). Comment: even though the ECB did not reinforce its recent focus on balance sheet expansion and provided perhaps fewer details than some had hoped for, this should not be read as backtracking, in our view. In particular, ECB President Draghi indicated several times that the ECB is concerned that inflation undershoots may continue, e.g. by highlighting that recent inflation undershoots had been driven by the weak economy (rather than falling commodity prices or the strong exchange rate). In our view, continued inflation undershoots relative to the ECB's forecasts will trigger further easing and we expect a government-bond focused QE programme to be announced in Q4 or early in 2015. See also **ECB: ‘Let’s See’ First, But Leaves Door Open To QE.**

>> [Back to the Top](#)

**Italy – government to provide guarantees to support ABS purchases by ECB,** *//Sole24Ore* reports. According to the newspaper, the Italian government and the Bank of Italy are working on a plan to provide state guarantees for the junior ABS tranches, making them eligible for ECB purchases. Comment: Italy has long been searching for ways to boost the ABS market in an attempt to end the credit crunch. Despite the high level of public debt, providing state guarantees on lower-rated ABS tranches could prove quite a powerful tool to revive credit flows in the Italian economy, given deteriorating credit quality, high concentration of SMEs and their very high reliance on bank financing.

>> [Back to the Top](#)

**Greece – ABS/covered bond purchases by the ECB only if Greece is in EU/IMF programme.** ECB President Draghi confirmed yesterday that the ECB will be buying ABS/covered bonds originated from Greek (and Cypriot) assets, even if they do not meet the minimum rating criteria of BBB-, if the country is under an EU/IMF programme. The same temporary suspension of the rating criterion for Greece and Cyprus applies for the eligible collateral in the open market operations. Comment: this ECB move will jeopardise the Greek government's intention to exit the bailout programme (both the EFSF and the IMF sides) at the end of this year. The European part of the second bailout programme is ending in Dec-14, while IMF disbursements are planned until Q1 16 (some €12bn still remaining for 2015-16). Letting the IMF programme run and/or agreeing on a precautionary credit line from the EFSF/ESM could be ways for Greece to meet the ECB criteria, without requesting a third bailout. This could require a softer surveillance mechanism which could be acceptable for the Greek government. Moreover, a monitoring system from the troika will still remain in place even after all credit lines are closed, as currently happens in Portugal and Ireland. We reckon this could represent enough reassurance for the ECB to purchase Greek (and Cypriot) assets.

the ECB is concerned that the inflation undershoot is likely to persist, which probably would trigger further easing.

**Ebrahim Rahbari**

## UK — PMI Weakens, Productivity Remains Flat

**1 October 2014**

Newsires report that the manufacturing PMI fell to 51.6 in September from 52.2 in August, and this index is now at the lowest for 17 months. Also out this morning, the ONS report that productivity (ie output per hour) fell 0.3% QQ in Q2 and was unchanged YY – indeed, the level of productivity was still slightly down from seven years earlier.

**Michael Saunders**

## UK — GDP Revisions Highlight Domestic Demand Surge

**30 September 2014**

There are several points of interest in today's data, which give details of Q2 economic activity along with revisions for recent years, reflecting the shift to ESA 2010 and other revisions as part of the annual “Blue Book” publication. First, the revisions to real GDP growth in recent years did not contain big surprises. Second, investment spending in recent years has been revised up markedly. Third, even with the pickup in business investment and consumer spending, the private sector debt/GDP ratio is falling rapidly. Fourth, although CPI inflation has fallen below 2% this year, overall domestic inflation pressures have not weakened, with the GDP deflator picking up. Fifth, the current account deficit has averaged 5.2% of GDP over the last four quarters – the highest 4-quarter average since data began in 1955. The current account deficit is not, however, a standard UK-style story of surging imports.

**Michael Saunders**

## Norway — Norges Bank to Buy NOK in October

**30 September 2014**

Norges Bank announced today that it will start buying NOK in October (NOK 250million/day) for the GPFG. This represents a complete reversal of the

[>> Back to the Top](#)

**EU's Moscovici tells parliament he will ensure a strict application of the budget rules** - Economic and Monetary Affairs commissioner designate Pierre Moscovici told EU MPs on Thursday that *"we will have to see if effective action has been taken by France"*, adding that *"If not, I will have to work on that"*. He remarked that *"it would not be acceptable to give privileges to any one country, if others have made efforts"*, stressing that *"I will not be indulgent in any way that would ruin the credibility of the Stability Pact"*. On the subject of flexibility, he told lawmakers that *"flexibility is not an over-creative interpretation of the rules"*, highlighting that the system is not rigid, with countries *"assessed individually"*, while there are also provisions that *"take the structural effort into account"*. On a different subject, the former French Finance Minister stressed that *"the time for Eurobonds is not upon us yet"* according to Reuters. He added that he thought it was unlikely to be on the table during his five-year mandate. Comment: in his capacity as the enforcer of EU budgetary rules, it will be very difficult for Mr. Moscovici to argue that France deserves special treatment. Not only does the institutional set-up of the new EU Commission make it difficult, Mr. Moscovici will also have to be seen to implement the legislation in an impartial manner, under the watchful eyes of countries of the periphery to whom no favours were granted. The need for France to accelerate structural reform is obvious, if only as part of the quid pro quo to obtain more time, but also because failure to deliver any meaningful change would likely condemn the current administration to a resounding electoral defeat in the 2017 presidential elections, in our view. Despite some reservations about the appointment of Mr. Moscovici and other Commissioners, the timetable for the European Parliament remains for the new Commission to be approved en bloc on October 22 and to take office on November 1.

[>> Back to the Top](#)

**German FM Schäuble calls for EU Fiscal Commissioner with power to block national budgets and also for limited Treaty Change.** Bloomberg reports that German FM Schäuble says that the EU needs deeper integration to ensure that its values and rules are *"respected and observed in the 21st century"* and to maintain security and prosperity for its citizens. Schäuble also repeated previous calls for a European budget commissioner with powers to reject national budgets if they do not correspond to EU rules and a Eurozone parliament comprised of MEPs. Schäuble noted that intergovernmental agreements such as the Fiscal Compact are *"second-best solutions"* compared to the so-called Community Method (which allows decision-making based on the EU institutions and treaties) and said that the EU gradually needed to *"replace or supplement these second-best solutions with limited changes to the treaties,"* calling on the European Commission to develop proposals to this end. Schäuble added that Europe needed to be *"strong to be able to influence the global debate on issues such as climate change, terrorism, the proliferation of weapons of mass destruction, hunger, disease, migration and financial and economic crises"*, noting that *"strong institutions and, of course, a strong economy"* were needed. Schäuble also urged to *"start tackling all of these tasks in Europe"* and at the same time to *"stop distracting ourselves with unproductive discussions about weakening fiscal rules and new government spending programs"*, as *"none of these discussions are going to bring us one step closer to sustainable growth."*

[>> Back to the Top](#)

**German MPs criticise ECB.** *Handelsblatt* reported that CDU MP Michelbach criticised ECB President Draghi, saying that his *"forced"* decision to purchase junk bonds from Greece and Cyprus undermines confidence in the euro and the idea of a united Europe and will drive even more voters to anti-Europe parties. He also said that the ECB's move threatens the stability of financial markets and *"betrays"* governments and people that have made considerable efforts to

Bank's previous behavior.

**Tina Mortensen**

## **UK — Deloitte CFO Survey Highlights Corporate Balance Sheet Strength**

**29 September 2014**

The latest quarterly Deloitte CFO survey gives further evidence that corporate balance sheets overall are in good shape, and that the economy is likely to be supported by strong growth in investment and jobs. With strong readings for expected revenues and margins, the net balance of CFOs who believe it is "a good time to be taking greater risk onto your balance sheets" rose to +44% from +30% three months ago and now is the highest since the survey began in 2007. Moreover, record net balances of CFOs believe that the cost of credit is low and that credit is easily available. All this suggests there is little risk of the expansion being scuppered by corporate retrenchment. We continue to expect that real GDP growth will markedly outperform consensus expectations over the coming year.

**Michael Saunders**

## **Euro Economics Weekly — Focus On The ECB's Balance Sheet**

**26 September 2014**

The ECB's recent shift to focus on the size of its balance sheet is very significant: it stresses balance sheet expansion as the main form of further easing and makes the decision to ease further more mechanical. We estimate that the ECB currently targets at least a €500-€700bn balance sheet increase and €400-€500bn of ABS and covered bonds purchases. It may struggle to achieve the amount of desired private asset purchases and balance sheet increase, making an additional QE programme likely. But even if the ECB manages to achieve the desired balance sheet increase, additional QE would be likely, as the recently announced measures are too small to return inflation to the ECB's target. The expectation of further ECB easing is a major driver of the current euro depreciation, which is why we do not think that a weaker euro will prevent an

achieve reforms. Michelbach said that the *"alleged risk of deflation is a chimera"* and that low inflation is due to energy price developments and the growing competitiveness of countries such as Spain and Portugal. The *Wall Street Journal* also reported that CDU budget spokesman Barthle criticised the ECB decision to buy ABS, saying that *"we know the operation of purchasing asset-backed securities from the time before the crisis."* Barthle said that the transfer of bad loans from banks to the ECB would make taxpayers liable, which he is *"not very excited about"*, adding that *"I very much hope that Mr. Draghi is aware of the limits of his mandate"*. Green Party financial policy spokesman Schick also criticised the ECB's actions, also noting that *"risks could again be transferred from the banking sector to taxpayers"* and that *"the vicious circle of weak demand, weak investments and high unemployment can only be broken by governments."*

[>> Back to the Top](#)

**France: Hollande labels 1% GDP growth forecast as realistic, while Italy's Renzi supports Paris bid to spread budget consolidation over two extra years** - French President Francois Hollande noted on Thursday that *"to target 1% [GDP] growth in 2015 appears realistic"*, but that *"a lot will depend on several parameters"* according to Reuters. He acknowledged that the recovery trajectory would be influenced by what member states do in Europe, how the Ukraine crisis unfolds but also highlighted positives such as a weaker euro against the dollar, low interest rates, the ECB's injection of liquidity into the financial system, as well as healthy growth in the US and emerging economies. Italian PM Matteo Renzi remarked on Thursday on Italian TV that *"we respect the decisions of a free country that is our friend like France. And no one has the right to treat another country as though they were students"*. He added that *"if that's what France decides, it no doubt has its reasons. I stand with [PM] Manuel Valls and [President] Francois Hollande."* Comment: France's decision to submit a budget delaying meeting the 3%-of-GDP budget deficit target by an extra two years is a strong statement. It is doubtful that the draft budget will be accepted as it stands, in our view, given the very limited amount of structural budget deficit reduction implied. Some concessions will likely be required in terms of additional reform effort, in our view, possibly requiring some hike in the VAT rate to enhance the efforts on improving competitiveness.

[>> Back to the Top](#)

**Greece – DIMAR to vote against presidential candidate, early election in 2015 increasingly likely.** Former ruling coalition partner Democratic Left (DIMAR) will vote against any nomination for the President of the Republic coming from the ruling coalition (New Democracy and PASOK), DIMAR's leader Fotis Kouvelis reportedly said in the opening speech of the party congress yesterday. ANA press agency reports that Kouvelis repeated he is not interested in a presidential candidacy. DIMAR reportedly eyes collaboration with SYRIZA in the next national elections. Comment: DIMAR currently controls 10 seats in Parliament, which could be crucial for the government to ensure its presidential candidate is elected. The lack of a qualified majority for the governing coalition would make early elections in spring 2015 almost inevitable.

[>> Back to the Top](#)

**Greece – confidence vote planned for next Friday.** Coalition leaders PM Antonis Samaras and Deputy PM Evangelos Venizelos are reportedly set to survive next Friday's vote of confidence in Parliament. *Ekathimerini* notes that the government only needs 146 votes (out of 300-seat Parliament) to secure a majority as nine Golden Dawn MPs will not vote since they are in pre-trial custody. Comment: the government is likely to pass the confidence vote next week, but early elections in spring 2015 are still a distinct possibility.

[>> Back to the Top](#)

eventual broad-based QE programme.

[Ebrahim Rahbari](#) | [Guillaume Menuet](#) | [Giada Giani](#) | [Michael Saunders](#) | [Antonio Montilla](#)

## UK Economics Weekly — Stubborn Fiscal Red Ink

26 September 2014

Despite rapid economic growth, the underlying fiscal deficit (ie excluding public sector banks) is up by £2.6bn YoY so far this fiscal year. Tax revenues, notably income tax and social security taxes, seem to be undershooting markedly. More people are in work, but fewer people are paying tax. Tax and benefit reforms are proving highly effective in boosting employment, but reduce the link from economic growth to tax revenues. We expect the fiscal deficit will exceed official forecasts by about £10bn this year, hence remaining roughly stable in cash terms (at about £97bn versus £99.3bn in 13/14).

[Michael Saunders](#) | [Ann O'Kelly](#)

## Scandi Economics Update — SocDem Leader Löfven Approved as New Swedish Prime Minister

3 October 2014

**Sweden** — As expected, Social Democrat leader Stefan Löfven was yesterday appointed new Prime Minister, and the government will officially change hands today at noon. Mr Löfven is also expected to give his keynote speech as PM (which could contain information on economic policy and tax proposals that may affect the CPI), as well as present his list of ministers for his cabinet today.

**Sweden** — Following generally weak readings in July, we expect both industrial (Citi: 0.9% M/M, prior: -1.1% M/M) and service (Citi: 0.5% M/M, prior: -0.7% M/M) production to rebound somewhat in August.

**Denmark** — The Danish National Bank intervened slightly in the foreign exchange market in September (net-purchase of foreign currency amounted to DKK 0.7bn), suggesting that an independent interest rate cut has moved closer, in our view.

[Tina Mortensen](#)

[>> Back to the Top](#)



## Latest Issues of Sovereign Debt Update

### ECB to Announce Modalities of Private Purchases

2 October 2014

ECB details today on ABS, covered bonds programs. ECB markets head on ABS purchases. German banks should raise fees, says BuBa's Dombret. BuBa wants to keep bank supervisory role. France's 2015 budget formalises 2-yr delay for deficit targets - High Council for Public Finances warns of risk. Greek govt to call confidence vote next week. Italy's state sector budget deficit below 2013 levels. Catalan govt appeals to Constitutional Court over referendum stop. Slovakia's deficit narrows in Sep.

[Ebrahim Rahbari](#) | [Guillaume Menuet](#) | [Giada Giani](#)

### Many Governments Against Providing ABS Guarantees

1 October 2014

Not only German govt opposed to providing guarantees for ABS. Greece, Cyprus still to benefit from ABS purchases by ECB. SSM will weed out national rules, says Lautenschlaeger. EBA: some banks will fail stress test. Euro Area: falls in inflation and manuf. PMI. Germany not naysayer, says CDU spokesman. France: 2015 budget details confirm only 0.3pp fiscal tightening. Catalan govt suspends independence campaigning. Spain: budget deficit narrows. Portugal's deficit revised up on ESA2010.

[Giada Giani](#) | [Guillaume Menuet](#) | [Ebrahim Rahbari](#)

### Spanish Constitutional Court Suspends Catalan Independence Referendum in Interim Ruling

30 September 2014

Spain's Constitutional court suspends Catalan referendum. Fitch gives negative outlook to Catalonia regional govt. Views of EU Commissioners Designate Dombrovskis, Moscovici and Bratušek. S&P may cut bank ratings where bail-in rules accelerated. Germany: govt seeks parliament backing for ESM direct bank recap instrument, ambassador to EU says TTIP crucial. France's social security deficit to overshoot. Renzi wins PD backing on labour reform. Greek plan for private debt arrears.

[Ebrahim Rahbari](#) | [Guillaume Menuet](#) | [Giada Giani](#)

### ECB Open to QE, Says Latvian Central Bank Governor

29 September 2014

ECB regularly discusses QE, says Rimsevics. ECB's Coeure and Coene on falling real rates and low-flation. German banking supervisor: not all EU banks will pass ECB test. Conservatives regain control of French Senate. Query over size of structural deficit reduction in France's 2015 Budget. Catalan govt calls independence referendum. Spanish govt approves 2015 budget. Greek govt mulls electoral reform and corporate tax reduction, while opposition Syriza gains in polls.

[Guillaume Menuet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#)

### Italian Government to Slash 2014/15 GDP Forecasts

26 September 2014

Eurogroup's Dijsselbloem expects impact of ECB measures in 4Q14/1Q15. ECB Preview. Germany's Schäuble "not particularly happy" about many things. France's EconMin Macron says concrete approach needed for investment plan. Italy's govt to revise down 2014/15 growth forecasts, revise deficit target up. Spain: govt to approve 2015 Budget today, level of nominal GDP revised up by ESA2010. Catalan PM reportedly calling independence referendum tomorrow.

Greek private sector bank deposits rise.

[Guillaume Menuet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#)

[>> Back to the Top](#)

## Macroeconomic Forecasts

### Global Economic Forecasts — September 2014

1 October 2014

This file shows summary forecasts as published in Citi's Global Economic Outlook and Strategy

[Michael Saunders](#)

### Europe — European Unemployment Rates – Forecasts to 2018

26 September 2014

This note gives our forecasts for annual unemployment rates in selected European countries to 2018.

[Ann O'Kelly](#) | [Michael Saunders](#) | [Guillaume Menuet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#)

### Europe — Europe: Monthly Inflation Profiles for Selected Countries

25 September 2014

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, Spain, UK, Sweden and Switzerland.

[Ann O'Kelly](#) | [Michael Saunders](#) | [Guillaume Menuet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#)

### European Economic Forecast Highlights, September 2014

25 September 2014

This companion to the September issue of Global Economic Outlook and Strategy gives more detailed forecasts for the main European countries to 1Q16, as well as annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance, and government debt. We also show our forecasts in comparison with those of the European Commission, the OECD and the IMF.

[Ann O'Kelly](#) | [Michael Saunders](#) | [Guillaume Menuet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#)

### Global Economic Outlook and Strategy — September 2014

24 September 2014

This publication contains Citi's updated forecasts and commentary for major economies, central bank policy and financial markets. **Our global growth forecasts continue to drift down**, and we are cutting 0.1 percent off our 2015 forecast this month, with the biggest monthly downgrade since mid-2011 to our overall forecast for EM growth in the current year and next year. **The ECB and BoJ are both likely to ease further** via new asset purchase programs in the next couple of quarters. By contrast, both **the BoE and Fed are likely to hike rates in the next 12 months**. We look for further weakness in the euro and yen against the US dollar and sterling. **We highlight three other themes**: medium-term China worries, sluggish world trade growth and political independence movements.

Please click on the link to read more

[Willem Buiter](#) | [Guillermo Mondino](#) | [Michael Saunders](#) | [William Lee](#) | [Kiichi Murashima](#)

### Emerging Markets Macro and Strategy Outlook — Time for another tantrum?

26 September 2014

EM is showing a faint echo of May 2013, the start of the 'taper tantrum', when it was faced with two shocks: expectations of a more unfriendly US monetary

policy, and an uncertain outlook for commodity exports. These two forces are back. But last year's distinction between 'deficit' (sell) and 'surplus' (buy) countries is morphing into a distinction between commodity and manufactured goods exporters. In the former group, we see deteriorating terms of trade, worse export performance, wider current account deficits, lower levels of investment efficiency, more depreciated currencies and bigger inflation problems. Among the Fragile 5, the manufacturing exporters (India, Turkey) have achieved decisive current account improvements while deficits are either bigger or only marginally smaller in commodity exporters. That may have been acceptable early this year when risk-appetite towards EM was stable, but if last year's 'taper tantrum' is repeated, these countries' failure to adjust will be punished.

[Guillermo Mondino](#) | [David Lubin](#) | [Johanna Chua](#)

## **Foreign Exchange Forecasts — Policy Divergence Kicks In – September 2014**

**19 September 2014**

Divergent monetary policies in G10 economies finally sparked FX volatility in September. As the carry trade gradually fades, to be replaced by a more dynamic “monetary surprise” driver, we expect USD gains to continue and be extended. We expect EUR and most other European currencies will be the biggest losers. It feels like a lower EUR is the only intermediate objective the ECB has to stabilize falling inflation expectations. We expect ongoing monetary ease to facilitate this with EUR likely to fall to 1.10-1.20 and CHF, SEK, and NOK also likely to suffer. Given a respite in UK political uncertainty, and a still strong economy, we forecast gains for GBP vs. EUR but expect some downside vs. USD. We expect stability in USD/EM over 0-3m but risks seem one-sided towards EM-weakness and, over 6-12m, we see USD gaining as we approach outright Fed tightening. Our forecasts imply 4-5% EM depreciation.

[Jeremy Hale](#) | [Maximilian Moldaschl](#) | [Guillermo Mondino](#) | [Alexander Demyanets](#)

[>> Back to the Top](#)

# 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](https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures). Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

### NON-US RESEARCH ANALYST DISCLOSURES

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

Citigroup Global Markets Ltd	Ebrahim Rahbari; Guillaume Menuet; Giada Giani; Jeremy Hale; Ann O'Kelly; Michael Saunders; Tina Mortensen; Alexander Demyanets; Maximilian Moldaschl; Antonio Montilla; David Lubin
------------------------------	--

Citigroup Global Markets Inc	Guillermo Mondino; Willem Buiter; William Lee
------------------------------	---

Citigroup Global Markets Asia	Johanna Chua
-------------------------------	--------------

Citigroup Global Markets Japan Inc.	Kiichi Murashima
-------------------------------------	------------------

### OTHER DISCLOSURES

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

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

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from



purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

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

**The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by.** The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Limited. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBD - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. 1202, 12th Floor, FIFC, G Block, Bandra Kurla Complex, Bandra East, Mumbai - 400051 Corporate Identity Number: U99999MH2000PTC126657 Tel: +9102261759999 Fax: +9102261759961. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A., Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by 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 the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 399 Interchange 21 Building, 18th Floor, Sukhumvit Road, Klongtoey Nua, Wattana, Bangkok 10110, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This material may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA nor regulated by the FCA and the PRA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA.

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

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at [https://www.citivelocity.com/cvr/epublic/citi\\_research\\_disclosures](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 is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Thomson Reuters. The printed and printable version of the research report may not include all the information (e.g., certain financial summary information and comparable company data) that is linked to the online version available on Citi's proprietary electronic distribution platforms.

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

---