Economics

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Euro Weekly

Negotiation Time

- The likelihood of a new bailout package for Greece in order to prevent a default has become clear to European policymakers in recent weeks. At the same time involvement of the private sector in the new package has also gathered support, but the details of its implementation remain undecided and they are crucial in assessing the market implications of such a move. A Vienna-Initiative style of debt rollover seems the most likely outcome to us.

- Risks have also recently intensified over the ability of the Greek government to build the necessary domestic consensus to approve the new fiscal measures and privatisation plans – the pre-condition for any further bail-out money to be committed. Negotiations on these two fronts will likely continue for the remainder of this month. (Giada Giani and Jürgen Michels, see page 2).

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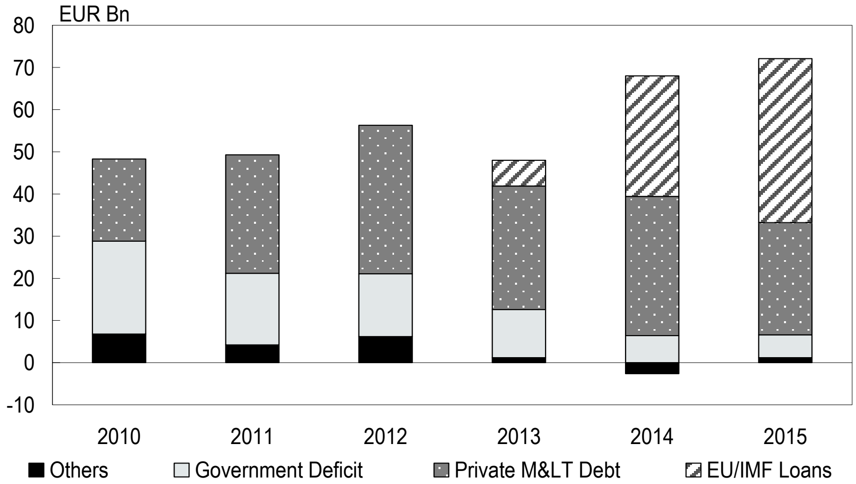
Figure 1. Citi Market Forecast

	$/€	Euro Repo	10-yr Bunds	£/€	U.K. Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vs Bunds
End 3Q 11	1.37	1.50	3.45	0.85	0.75	50	9.02	2.25	7.89	2.50	1.25	0.50	-110
End 1Q 12	1.47	2.00	3.75	0.87	1.25	55	8.85	2.75	7.82	3.00	1.33	1.00	-105

Source: Citi Investment Research and Analysis

Figure 2. Greece – Public Sector Funding Needs, 2010-2015



Sources: IMF Third Review Under the Stand-By Agreement, March 2011.

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

Negotiation Time

Decisions on the second Greek bail-out package become urgent

Over the past couple of weeks there seems to have emerged an agreement, at least in principle, among European policymakers to provide a second support package for Greece to fill the country's funding gap over the next three years. However, there is so far no agreement on the details of such a package, including the form of private sector involvement. But, as the latest IMF/ECB/EU Troika report seems to suggest, without an agreement on measures to fill the funding gap the next tranche of the Greek loans – planned for early July – will not be paid out. Without this next tranche – worth €12bn – Greece would probably be forced into a disorderly default. Facing this threat, we expect policymakers to agree on the details of a second Greek package by 24 June at the latest – the next EU Council of the Heads of State and Government.

The new package seems to give an extra year to Greece to consolidate its public finances…

Amidst a myriad of comments over the past few weeks from the different players at the negotiating table, we see that only a few relevant steps have actually been taken. Since we last wrote on the subject in mid-May[1], there seems to now be a firmer commitment by European policymakers to grant Greece a fresh new bail-out package on top of the original commitment of €110bn made in May 2010. Moreover, the new package is reportedly aimed at extending external support for Greece by one year relative to the original plan – from mid-2013 to mid-2014. This extension most likely reflects the acknowledgement that Greece needs more time to deliver on its fiscal targets, but possibly also reflects the intense political agenda for 2013 – general elections in Germany and in Greece – which may interfere with any decisions to be taken close to the end of the Greek economic adjustment programme.

…implying the required financing resources increase dramatically

Extending external support for Greece by one extra year will also increase the amount of resources to be committed in the new bailout. Greek public debt maturing between 2012 and 2014 amounts to a substantial €98bn, if one excludes the first repayments of the EU/IMF loans. According to the original plans some of these loans should already be paid back in 2013 (€6.1bn) and in 2014 (€28.6bn). Most likely the maturity of these loans – at least of the European contributions, which represent two-thirds of the total – will be extended beyond this time horizon, as was agreed back in March. On top of debt amortisation, a still-negative Greek budget balance has to be financed. Based on the programme's last review, this should amount to €33bn in the three-year period between 2012 and 2014, bringing the total funding need to roughly €130bn over that time span (see Figure 2 on the front page).

Uncertainty still on the size of the fiscal budget

There is quite large uncertainty around the actual size of the fiscal deficit. The cumulated deficit for the next three years is likely to be somewhat higher than previously envisaged, we reckon, given the slippages relative to targets recently experienced. On the other hand, these slippages should be partly offset by the new austerity measures which Greece has just agreed with the EU/IMF/ECB Troika – the other key step forward taken in the last couple of weeks. They envisage further fiscal tightening of €6.4bn in 2011 (around 3% of GDP) and a total tightening of €28.3bn until 2015. This means that there is a planned fiscal tightening of 12.7pp of GDP in the period 2012-2014 compared to 7.3pp assumed previously.

Overall funding needs in 2012-2014 largely determined by debt amortisation and likely to amount to €130-140bn…

Additional funding needs may also arise from bank recapitalisation measures: in the latest review this extra funding amounted to €5bn in 2012-14. Yet, despite all these uncertainties, overall funding needs are to a large extent determined by debt amortisations and hence any deviations on the other components are unlikely to meaningfully change the total figure of around €130-140bn. If EU/IMF loans due to expire in 2013 and 2014 were not extended, the total figure rises to €165-€170bn.

[1] See "Greece - Mind the Funding Gap", *Euro Weekly*, 13 May 2011, Citi.

…of which €75-€85bn may be required to be covered by external/official creditors

On the sources to finance this gap, resources still available from the original bailout package (of €110bn) will only be €31bn for 2012 and 2013 together, assuming that the remaining €25bn earmarked for this year are disbursed in the second half of the year. Privatisation receipts previously envisaged for 2011-2014 amounted to €8.5bn. The contribution from this item should be increased sizeably in the new programme, after the new commitment to accelerate the disposal of state assets. Various press reports have suggested that privatisation receipts could total €25bn by 2014. If this is confirmed in the new programme, it would leave a financing gap for the next three years of around €75-€85bn which official creditors and/or private investors will have to fill.

Political fatigue in Greece is rising as tough negotiations on the additional measures suggest

One note of attention should be paid to the uncertainties around the approval of the new fiscal measures and privatisation plans by the Greek parliament. Under the push of the Troika, the Greek government has been trying to build up a domestic consensus to go ahead with the new round of tightening, but political fatigue is increasing. While political consensus behind the austerity and bailout measures may have been desired (and perhaps still is) by the Troika, in practice this is not necessary with the socialist party having 156 seats in a 300 seat parliament. But discontent has also become louder among the members of the governing socialist party (Pasok). The Prime Minister's threat to call for a referendum on the new measures suggests the rise in domestic political tensions, rather than being a real threat. This week the cabinet seems to have voted in favour of all measures before presenting them to parliament, probably next week.

Negotiations will also be tough among the official creditors of Greece

On this latter point, as we have seen many times since the beginning of the sovereign debt crisis, opposing national interests of the euro area countries have resulted in very lengthy negotiations. So far, agreements have been only possible in emergency situations as a reaction to severe market pressure.[2] Yet, none of the decisions taken so far was able to convince market participants that it would bring the fiscally-strained euro area peripheral countries back on a sustainable fiscal path. We suspect the second Greek package will not be different. The programme is likely to give Greece more time to improve its budget situation before getting back to the market, but we doubt that even in 2014 or 2015 Greek budget and economic data would look strong enough to convince markets to provide the country with private financing at reasonable costs.

Novelty of the second Greek package seems to be some form of private sector involvement

While there are lots of similarities between the negotiations of the second Greek package and the previous three rescue packages (Greece, Ireland and Portugal), there is one big difference. This time there seems to be an agreement, at least in principle, that private holders of Greek sovereign debt have to make some contribution. This change reflects the unwillingness of the core countries' governments to put more taxpayers' money at risk to support Greece. This partly reflects – as the new EU/IMF/ECB Troika report highlights – the fact that first Greek programme has not worked as expected. In particular, there was a misjudgment with regards to the assumption that the Greek sovereign would have been able to return to market funding two years after the beginning of the adjustment programme.

Political fatigue also emerging in the core European countries

Moreover, rescue packages for the peripheral countries have become more and more unpopular in the core countries – as the gains of the eurosceptic True Finns party at the Finnish general election or the opposition of the German government coalition's MPs against further aid suggest. However, a mock vote among the government MPs in Germany suggests that the German Bundestag – which has no right to block a government decision on the Greek aid – supports a second Greek package under the condition of including some private sector involvement.

[2] On the initial Vienna initiative see: "Vienna Initiative – moving to a new phase", EBRD, May 2011.

Two options on the table to involve private investors in the new bailout

The big question now remains how to involve the private sector in additional financing for Greece. As none of the key negotiators seems ready to ask for an outright haircut on the Greek outstanding sovereign debt, there are effectively two options on the table for a supposedly voluntary participation of the private sector in the new bailout:

1. A debt rollover (a kind of Vienna Initiative) – Such a rollover means that at maturity of the existing bonds the current bondholders commit to buy new Greek bonds, possibly with the same interest rate but maturing five or ten or more years later. After being completely against any involvement of the private sector until recently the ECB – which has the role of senior advisor in the negotiations on the package – seems now willing to tolerate a Vienna-Initiative style debt rollover.[3] However, ECB President Jean-Claude Trichet insisted this week that the ECB is strictly against any involvement of the private sector on an enforced basis that would lead to any form of credit event or default.
2. A debt swap (Berlin Initiative) – this is the proposal from German Finance Minister Wolfgang Schäuble, who calls for a swap of all the outstanding Greek bonds into bonds with the same interest rate, but a seven-year longer maturity.

Debt rescheduling gives more certainty than debt rollover on the amount of money possibly saved by official creditors

Both proposals are very similar with respect to the impact on the net present value of the bonds, assuming that the newly-issued bonds in case of the rollover will also have a seven-year maturity. In both cases, it might also be the same group of investors which could participate in the transaction. However, the German proposal would entail the existing bonds getting an early repayment at 100 and the whole amount of the investment going into a new bond with the same interest rate as the maturing one and a seven-year longer maturity. This implies that the total amount which could be raised from the debt rescheduling – i.e. the contribution of the private sector – would be certain at the time of the bond swap. In case of the debt rollover, the extent of the private sector contribution would remain uncertain up to the point at which the existing bonds mature.

But debt rollover less likely to trigger CDS

But this difference is not the only one between the two options. Depending on the way a swap exchange would be arranged, there could be very different treatment of the Berlin Initiative of debt rescheduling and the Vienna Initiative of debt rollover. In the latter case, the experience of the original Vienna Initiative suggests that it would not trigger a CDS and that the rating agencies would not regard it as a default. This is by far less clear in case of the Berlin Initiative. However, if the Berlin Initiative accepts to achieve a relatively low participation in the voluntary transaction – some press reports mention that the amount of the contribution of the private sector should be around €30bn – it might be possible to prevent both a downgrade by the rating agencies and a triggering of CDS. While €30bn is less than 10% of outstanding Greek debt, it would still represent a decent contribution to fill the funding gap which we estimated at €75-€85 (after factoring in privatisation receipts). This would leave the official creditors – euro area countries and IMF – needing to commit "only" €45-€55bn of taxpayer's money.

Full investor participation is unlikely if a CDS triggering event has to be avoided

As our colleagues from credit research pointed out recently, in the event of a voluntary option it will be difficult to reschedule Greek bonds with total (100%) participation of investors.[4] The main reason is that most incentives which could be used to "convince" investors to accept the voluntary debt restructuring/rescheduling might be interpreted by the ISDA Determinations Committee – the committee deciding on CDS triggers – as a credit event. Hence, we suspect it would be hard to achieve a rescheduling of the Greek debt which results in all investors receiving the same maturity extension and does not trigger CDS.

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[3] On the initial Vienna initiative see: "Vienna Initiative – moving to a new phase", EBRD, May 2011.

[4] See *"Sovereign rescheduling: what triggers CDS?"*, Michael Hampden-Turner, 18 May 2011

ECB unlikely to exclude Greek bonds even if rating agencies announce a default

If European policymakers are prepared to accept less-than-full participation among investors, it would be easier to implement a voluntary rescheduling without triggering a CDS. However, there are several things to take into account to avoid triggering a CDS event or a statement of default by the rating agencies which, the ECB has warned, would exclude Greek sovereign bonds or government guaranteed bonds as eligible collateral for its open market operations. However, the ECB seems to have some discretion in accepting Greek bonds – and therefore prevent a liquidity shortage for Greek banks – even if some rating agencies do announce a default. For example, the ECB could emphasise the credibility of the ongoing implementation of the (amended) Greek economic adjustment programme, as it did in accepting Greek bonds with a sub-standard rating grade.

CDS more likely to be triggered for Greek bonds issued under international law (10% of total outstanding bonds)

One area that could trigger CDS on some of the Greek international bonds are the possible negative pledges which are used in these bonds (international law-based Greek bonds represent only 10% of all outstanding Greek bonds). Similar to the view of the rating agencies regarding the definition of a default, issuing new bonds with preferred conditions compared to the existing bonds could trigger a CDS. An example of such conditions could be the legal status of preferred creditor or the provision of collateral for the new debt. Note that this negative pledge would not only be affected by new bonds to the private sector, it would also include the loans provided by the EFSF or under the first Greek package. Therefore, the plans sponsored by Finland and Slovakia to provide Greece with new loans via the EFSF only if backed by collateral could trigger CDS for international Greek bonds. However, a way to prevent this would be to give the affected international bonds the same status. In that respect it is worth mentioning that the planned preferred creditor status of the future ESM will probably not trigger CDS because the preferred creditor status is only relative to the IMF. And the status of the IMF is not codified by law.

A Vienna-style initiative the most likely outcome of the negotiations in our view

Although a Berlin Initiative of a debt rescheduling might be designed well enough to prevent a credit event and perhaps also default announcements by rating agencies, there is a risk that this might happen by accident. This suggests to us that with the strong opposition of the ECB, France and other euro area member countries against any measure that could trigger a default, Germany is unlikely to push through its proposal in the negotiations. Hence, it looks more likely to us that the involvement of the private sector will come in the form of a Vienna-Initiative style of debt rollover.

New Greek loans would come mostly from the EFSF

Another question which euro area and EU finance ministers have to address is the source of the European contribution of the additional funding for Greece. According to a Handelsblatt report, the UK has objections to using the EFSM – the rescue facility backed by the EU budget which is available for all 27 EU member countries – for additional support to Greece. After being substantially used in the Irish (€22.5bn) and Portuguese (€26bn) programmes, only €11.5bn out of the original €60bn is left within the EFSM. This suggests to us that the whole amount of the European contribution – probably two-thirds of the official creditors' contribution, with the remaining one-third likely to come from the IMF – will be disbursed as EFSF loans. After being used for €17.5bn of the Irish package and for €26bn of the Portuguese package, around €210bn of the effective lending capacity of the EFSF is still available. In that respect, it is worth reminding that the expansion of the effective lending capacity of the EFSF to €440bn is also on the agenda of the Council meeting of the EU Heads of State and Government on 23/24 June.

Risks on the next few weeks' negotiations remain high on all fronts

To sum up, the latest Troika report stated that Greece is not able to get back to the market in 2012 and additional external support is needed to cover its financing needs in the next few years. As usual, additional rescue money comes only in exchange for more domestic efforts on the fiscal front. A decision on the future sources of financing has to be reached pretty quickly, as the Troika report makes clear that the next tranche of loans of €12bn due to Greece in early July is subject to this. The option of the private sector being called to participate in some form to fill Greece's financing gap has now gathered quite a strong consensus. However, risks remain elevated in terms of the technical details of the private sector involvement and in terms of the ability to create a domestic consensus in Greece for the new austerity drive.

Key Economic Indicators (13 June –17 June 2011)

		Forecast	Last
Monday 13 June		**Forecast**	**Last**
09:00	Italy: Industrial Production, Apr	0.4% MM	0.4% MM
Tuesday 14 June		**Forecast**	**Last**
00:01	UK: RICS House Price Survey, May		
06:45	Switzerland: SECO Economic Forecasts		
07:45	France: Balance of Payments, Apr		
08:00	Spain: HICP, May Final	3.4% YY	3.5% YY
08:30	Sweden: Consumer Prices, May	0.2% MM, 3.4% YY	0.4% MM, 3.3% YY
	CPIF, May	0.2% MM, 1.8% YY	0.4% MM, 1.8% YY
09:30	UK: Consumer Prices, May	0.2% MM, 4.5% YY	1.0% MM, 4.5% YY
	CPI Ex Food, Drink, Tobacco, Energy, May	0.0% MM, 3.4% YY	0.9% MM, 3.7% YY
	Retail Prices, May	0.4% MM, 5.3% YY	0.8% MM, 4.2% YY
	RPIX – Excludes Mortgages, May	0.4% MM, 5.3% YY	0.9% MM, 5.3% YY
Wednesday 15 June		**Forecast**	**Last**
06:30	France: HICP, May	0.1% MM, 2.2% YY	0.4% MM, 2.2% YY
	National CPI, May	0.1% MM, 2.1% YY	0.3% MM, 2.1% YY
07:00	Sweden: Prospera Quarterly Inflation Expectations Survey, Jun		
08:15	Switzerland: Producer and Import Prices, May		
08:30	Netherlands: Trade Balance, Apr		
09:00	Sweden: PES Unemployment Rate, May	3.9%	4.0%
09:00	Norway: Trade Balance, May		
09:30	UK: Claimant Count Unemployment, May	+4,000 MM, 4.6% Rate	+12,400 MM, 4.6% Rate
	LFS Unemployment, Feb-Apr	-70K QQ, 7.7% Rate	-35K QQ, 7.7% Rate
10:00	Euro Area: Industrial Production, Apr	-0.1% MM, 4.8% YY	-0.2% MM, 5.1% YY
	UK: BoE Governor King and Chancellor Osborne Speak at Mansion House Dinner (Evening)		
Thursday 16 June		**Forecast**	**Last**
08:00	Spain: Labor Costs, 1Q		
08:15	Switzerland: Industrial Production, 1Q		
08:30	Switzerland: SNB Announces Interest Rates (Press Conference)		
08:30	Netherlands: Retail Sales, Apr		
09:00	Italy: Consumer Prices, May Final		
09:00	Euro Area: ECB Bulletin		
09:30	UK: Retail Sales Volumes, May	0.2% MM, 2.3% YY	1.1% MM, 2.8% YY
10:00	Euro Area: Employment, 1Q	0.3% QQ, 0.6% YY	0.2% QQ, 0.2% YY
10:00	Euro Area: Inflation, May Final	Unch MM, 2.7% YY	0.6% MM, 2.8% YY
	Greece: Quarterly Unemployment, 1Q		
Friday 17 June		**Forecast**	**Last**
07:00	EU-25: New Car Registrations, May		
09:00	Italy: Trade Balance, Apr NSA	€-3.8 Billion	€-3.9 Billion
10:00	Euro Area: Trade Balance, Apr	€-2.3 Billion	€-0.9 Billion
10:00	Euro Area: Construction Output, Apr		

Sources: National statistical offices, central banks and Citi Investment Research and Analysis

Economic Indicators

Euro Area			
Jun 15 10:00 London Time	***Industrial Production, Apr***	**Forecast: -0.1% MM, 4.8% YY**	**Prior: -0.2% MM, 5.1% YY**
	Following the decline in March – which was the first since drop since September 2010 – we expect a second consecutive small increase in production in April. This decline is probably partly due to temporary disruptions in some areas by the earthquake and nuclear disaster in Japan. Because of the late timing of the Easter holidays, distortions in the seasonal adjustment procedure may also have a negative impact on April output.		
Jun 16 10:00 London Time	***Employment, 1Q***	**Forecast: 0.3% QQ, 0.6% YY**	**Prior: 0.2% QQ, 0.2% YY**
	Partly due to benign weather effects, but also reflecting the modest economic recovery, we expect a second consecutive increase in employment in 1Q 2011.		
Jun 16 10:00 London Time	***HICP, May Final***	**Forecast: Unch MM, 2.7% YY**	**Prior: 0.6% MM, 2.8% YY**
	Eurostat will probably confirm the flash estimate for May inflation of 2.7%, showing a small decline (0.1 point) compared to April. Prices will probably be unchanged from April, with energy prices likely down compared to the previous month but with gains likely in food prices. We expect that the core inflation rate will edge down from 1.6% YY in April to 1.5% YY in May, mainly reflecting base effects, caused by the late timing of the Easter holidays.		
Jun 17 10:00 London Time	***Trade Balance, Apr***	**Forecast: €-2.3bn**	**Prior: €-0.9bn**
	Following a narrowing of the trade deficit in the previous two months we expect a widening in April. After three consecutive gains we expect a drop in seasonally adjusted exports (-0.8% MM) while imports probably continued to increase (0.2% MM)		
France			
Jun 15 07:45 London Time	***HICP, May***	**Forecast: 0.1% MM, 2.2% YY**	**Prior: 0.4% MM, 2.2% YY**
	National CPI, May	**Forecast: 0.1% MM, 2.1% YY**	**Prior: 0.3% MM, 2.1% YY**
	After a less significant increase than in other euro area countries in recent months, we expect French inflation to remain unchanged in May. However, we expect a small increase in consumer prices compared to the previous month. This increase is partly due to higher food prices while in contrast to previous month there is probably little additional pressure from energy prices. We expect an increase of the national CPI index ex tobacco from 122.32 in April to 122.45 in May.		
Italy			
Jun 13 09:00 London Time	***Industrial Output, Apr***	**Forecast: 0.4% MM**	**Prior: 0.4% MM**
	Industrial output was quite disappointing in 1Q (-0.1% QQ), after an already poor performance in 4Q 10 (-0.6% QQ). However, other indicators of industrial output, like industrial orders and imports of capital goods suggest the underlying trend should still be positive, albeit not particularly strong. We expect output to increase by 0.4% MM in April. The annual rate should however continue to subside, down to 1.6% (WDA) in April from 3.1% (WDA) in March. The cyclical peak in the industrial sector seems to be behind us.		
Jun 17 09:00 London Time	***Trade Balance, Apr, NSA***	**Forecast: €-3.8 Billion**	**Prior: €-3.9 Billion**
	The Italian trade deficit is at its widest levels since the series began in 1960, as the energy bill keeps import growth high and exports are not recovering as fast as in many other European countries. Moreover, non-energy imports have recently increased more than the usual relationship with exports and domestic demand would suggest, hinting at possible substitution effects of domestic production with imported goods (possibly due to loss of competitiveness of Italian firms). Overall, we believe the ongoing deterioration of the trade balance reflects the competitiveness losses accumulated by Italy over the past decade.		
Spain			
Jun 14 08:00 London Time	***HICP, May***	**Forecast: 3.4% YY**	**Prior: 3.5% YY**
	Preliminary data indicated a decline in CPI and the HICP headline inflation rates by 0.3pp and 0.1pp, respectively, in May (to 3.5% and 3.4% YY, respectively). This probably resulted from the oil-induced drop in fuel prices over the past month and the reversal of the Easter-related increases in holiday prices in April. As a result, core CPI inflation probably also declined a bit to 2.0% YY from 2.1% YY in April. We expect headline inflation in Spain to have already reached its cyclical peak and to start subsiding in the summer.		
Sweden			
Jun 14 08:30 London Time	***Consumer Prices, May***	**Forecast: 0.2% MM, 3.4% YY**	**Prior: 0.4% MM, 3.3% YY**
	CPIF, May	**Forecast: 0.2% MM, 1.8% YY**	**Prior: 0.4% MM, 1.8% YY**
	Headline inflation is expected to stay above 3.0% for the rest of this year. We forecast an inflation rate of 3.4% in May; slightly up from last month's 3.3% YY. However, this rise in consumer prices is mainly driven by higher costs of mortgages. Hence, core inflation, CPIF, which adjusts for these costs, is likely to stay subdued in 2011, and we forecast the underlying inflation rate to be stable at 1.8% in May, in line with the Riksbank's forecast.		
Jun 15 09:00 London Time	***PES Unemployment Rate, May***	**Forecast: 3.9%**	**Prior: 4.0%**
	Seasonal factors as well as weekly labour market data suggest another drop in the unemployment rate in May, published by the Swedish Public Employment Service. If we are right and the unemployment rate falls to 3.9% in May, it will be at the lowest level since November 2008.		

Economic Indicators

United Kingdom

Jun 14 09:30 London Time	***Consumer Prices, May***	**Forecast: 0.2% MM, 4.5% YY**	**Prior: 1.0% MM, 4.5% YY**
	CPI Ex Food, Drink, Tobacco, Energy, May	**Forecast: 0.0% MM, 3.4% YY**	**Prior: 0.9% MM, 3.7% YY**
	Retail Prices, May	**Forecast: 0.4% MM, 5.3% YY**	**Prior: 0.8% MM, 5.2% YY**
	RPIX – Excludes Mortgages, May	**Forecast: 0.4% MM, 5.3% YY**	**Prior: 0.9% MM, 5.3% YY**
	Base effects from the soft CPI print a year ago (May 2010 CPI rose 0.2% MM, the lowest May reading since 2003) is likely to keep CPI inflation roughly stable, despite the probable drop in prices of air fares after their sharp rise in April (triggered by the late Easter). Such a figure would be the 18th consecutive month with inflation above the 2% target, and the record (20 months in 2008-09) is likely to be exceeded soon. In total, inflation has been above target in 56 of the last 70 months.		
Jun 15 09:30 London Time	***Claimant Count Unemployment, May***	**Forecast: +5,000 MM, 4.6% Rate**	**Prior: +12,400 MM, 4.6% Rate**
	LFS Unemployment, Feb—Apr	**Forecast: -70K QQ, 7.7% Rate**	**Prior: -36K QQ, 7.7 % Rate**
	The claimant count unemployment total has bounced around in recent months, falling in late 2010 and rising in three of the past four months because changes in benefit regulations have increased the numbers of mothers with school age children who are eligible to claim unemployment benefits. The LFS measure, which is not affected by this change in benefit rules, has fallen slightly in recent months.		
Jun 16 09:30 London Time	***Retail Sales Volumes, May***	**Forecast: 0.2% MM, 2.3% YY**	**Prior: 1.1% MM, 2.8% YY**
	There are mixed signals on retail sales for May: the CBI retail survey suggests that sales have been quite strong, but there may be scope for a softer figure this month as payback for having had better-than-expected sales in the last couple of months. On balance we expect a small rise in retail sales, but this would put 2Q on track for a solid gain with sales in April and May up by more than 1% from the 1Q level.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, CIRA forecasts

Key Economic Indicators (20 June –24 June 2011)

Monday 20 June		**Forecast**	**Last**
07:00	Germany: Producer Prices, May		
08:30	Sweden: Unemployment, May		
09:00	Italy: Industrial Orders, Apr		
09:00	Euro Area: Balance of Payments, Apr		
10:00	Euro Area: Labor Cost Index, 1Q		
	Euro Area: Eurogroup Meeting of Finance Ministers (Luxembourg)		
Tuesday 21 June		**Forecast**	**Last**
	EU: ECOFIN Meeting of Finance Ministers (Luxembourg)		
09:30	UK: Public Sector Net Borrowing, May	£17.0 Billion Deficit	May 2010: £18.3 Billion Deficit
	Fiscal Year To Date, Apr—May	£27.0 Billion Deficit	Apr-May 2010: £25.5 Billion Deficit
10:00	Germany: ZEW Economic Expectations, Jun		
11:00	UK: CBI Industrial Trends: Output Expectations, Jun	+24%	+20%
	CBI Order Books, Jun	-2%	-2%
	CBI Selling Prices, Jun	+26%	+24%
	Greece: Current Account, Apr		
Wednesday 22 June		**Forecast**	**Last**
07:45	France: Industrial Confidence, Jun		
08:15	Sweden: Business & Consumer Surveys, Jun		
08:30	Netherlands: Consumer Confidence, Jun		
09:00	Norway: LFS Unemployment, Apr		
09:30	UK: MPC Minutes (Jun 9)		
09:30	UK: BoE Agents' Summary of Business Conditions (Jun)		
10:00	Euro Area: Industrial New Orders, Apr		
13:00	Norway: Norges Bank Interest Rate Announcement		
15:00	Euro Area: Consumer Confidence, Flash Estimate, Jun		
19:15	US: FOMC Outcome		
Thursday 23 June		**Forecast**	**Last**
08:30	Sweden: Producer Prices, May		
08:30	Netherlands: GDP, 1Q Details		
08:30	Netherlands: Unemployment, May		
09:00	Italy: Consumer Confidence, Jun		
09:00	Euro Area: Flash PMI, Jun		
09:30	UK: BBa No. of Mortgage Approvals for Home Purchase, May		
11:00	UK: CBI Retail Survey, Jun		
Friday 24 June		**Forecast**	**Last**
	EU: European Council of EU Heads of State and Government		
07:45	France: Consumer Confidence, Jun		
08:00	Spain: Producer Prices, May		
08:30	Netherlands: Consumer Spending, Apr		
09:00	Germany: ifo Business Climate, Jun		
09:00	Italy: Retail Sales, Apr		
09:30	UK: Investment by Insurance Companies and Pension Funds, 1Q		
10:30	UK: BoE Financial Stability Report and Press Conference		

Sources: National Statistical Offices, Central Banks and Citi Investment Research and Analysis

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area — Sovereign Debt Crisis Update	Giada Giani	June 10, 2011
ECB — Preparing the Next (Probably Not the Last) Rate Hike	Juergen Michels	June 9, 2011
Spain — Industrial Output Slowing On Weakening Domestic Demand	Giada Giani	June 6, 2011
ECB — Preview Preparing the Next Hike	Juergen Michels	June 6, 2011
European Economic Forecast Highlights	Ann O'Kelly	May 26, 2011
Spain — Decent Q1 GDP Growth Hides Weak Domestic Demand	Giada Giani	May 18, 2011
ECB — Preparing For A July Rate Hike	Jürgen Michels	May 5, 2011
Euro Weekly		
Italy — Lagging Behind	Giada Giani	June 3, 2011
Recovery in Core Countries Continues	Giada Giani	May 27, 2011
Spain — The Twin Political and Fiscal Risks	Giada Giani	May 20, 2011
Greece — Mind the Funding Gap	Giada Giani	May 12, 2011
Nordics		
Sweden — Industrial Production Growth Likely to Have Peaked	Michael Saunders	June 10, 2011
Norway — The Regional Network Survey and Production	Michael Saunders	June 8, 2011
Sweden — A Strong and Improving Financial System	Michael Saunders	May 31, 2011
Sweden.— Upside Surprises in Manufacturing and Consumer Confidence	Michael Saunders	May 26, 2011
Norway — 1Q Growth Softer Than Expected	Michael Saunders	May 24, 2011
Global		
Global Economics View: TARGETing the wrong villain: Traget2 and intra—Eurosystem imbalances in credit flows	Willem Buiter	June 9, 2011
Global Economic Outlook And Strategy	Willem Buiter	May 25, 2011
UK		
UK — MPC On Hold, Mortgage Rates Fall	Michael Saunders	June 9, 2011
UK — Trade Deficit Lower Than Expected	Michael Saunders	June 9, 2011
UK — IMF Endorses Fiscal Plans	Michael Saunders	June 6, 2011
UK — Time to Scale Back National Savings?	Michael Saunders	June 6, 2011
UK — YouGov Inflation Expectations Higher	Michael Saunders	May 26, 2011
UK — Has The MPC Really "Chosen" to Accept Inflation?	Michael Saunders	May 19, 2011
Sterling Weekly		
Uncertainties Keep MPC On Hold	Michael Saunders	June 3, 2011
The (Re) Balancing Act	Michael Saunders	May 27, 2011
More Jobs, Less Pay	Michael Saunders	May 20, 2011
MPC Paralysed by Uncertainties	Michael Saunders	May 13, 2011

Source: Citi Investment Research And Analysis

Notes

Notes

Appendix A-1

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