Citi Research

Economics

17 April 2013 │ 48 pages

Global

Global Economic Outlook and Strategy

April 2013

- Our 2013 global growth forecast is slightly weaker this month, with modest downgrades to forecasts for the euro area and China — which were already below consensus. After 2.5% global growth in 2012 (at current exchange rates), we look for global growth of 2.6% in 2013 (revised down from 2.7% last month), gradually strengthening to 3.1% in 2014 and 3½%-4% YoY in 2015-17. Our 2014 growth forecast is a little below the IMF's latest projection, reflecting in particular lower forecasts for Europe and China. Even so, we expect that global growth will be close to its 30-year average (2.8%) in 2013-14 combined, and a little above average subsequently. With the rising weight of investment-intensive countries, the ratio of global investment to GDP in coming years is likely to hit the highest for over 30 years.

- We expect major central banks to keep policy loose or loosen further. The BoJ's aggressive action — though far ahead of market expectations — probably will not be enough to lift inflation back to 2% YoY on a sustained basis. Hence, we expect the BoJ will be biased to loosen further, while debate is likely to intensify over whether to delay the consumption tax hike. With the euro area still in recession, and poor financing conditions in periphery countries, the ECB is likely to cut rates in May and again later this year. Even so, prospects for the euro area economy remain poor, and — with most periphery countries still, we think, on an unsustainable fiscal path — we still expect some further restructuring of government debts (possibly via OSI in some cases) and/or bank liabilities in a range of countries over time. The Fed will probably begin to taper QE in H2 this year, but asset purchases are still likely to run into early 2014. The UK MPC probably will loosen further through a range of channels, including QE. In China, with slower Q1 growth and only limited fiscal stimulus, the pace of monetary policy neutralisation may be delayed to stabilise growth and meet the government's 7.5% GDP growth target for 2013.

- We expect further generalised US dollar strength in coming months, while we forecast USD/JPY in a 105-110 range although much higher levels are also possible. We forecast the euro to trade between a strong USD and a weaker JPY. We expect very few sovereign ratings changes among advanced economies in the next 2-3 quarters, but anticipate a fairly widespread bias to ratings downgrades in the next 2-3 years.

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With thanks to Jan Maguire

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Figure 1. Currency and Interest Rate Forecasts, as of 17 April 2013

	17 April 2013	2Q 13F	3Q 13F	4Q 13F	1Q 14F	2Q 14F	3Q 14F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-Yr. Treasuries (Period Ave.)	1.72	1.86	2.13	2.38	2.63	2.83	3.00
Euro Area: US$/€	1.31	1.31	1.28	1.25	1.24	1.23	1.22
Euro Repo Rate	0.75	0.50	0.50	0.25	0.25	0.25	0.25
10-Yr. Bunds (Period Ave.)	1.29	1.40	1.40	1.30	1.30	1.40	1.50
Japan: Yen/US$	99	107	106	105	105	105	105
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.58	0.50	0.60	0.70	0.60	0.50	0.70

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

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

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Figure 2. Forecast Highlights and Changes from Last Month

■ Global	We are trimming 0.1% off our 2013 global growth forecast, to 2.6% (at current exchange rates) from 2.7% last month, reflecting slight downgrades to forecasts for the euro area and China. We look for global growth of 2.6% in 2013 and 3.1% in 2014, rising to 3½%-4% YoY in 2015-17. Our forecasts are a little below the consensus and IMF forecasts.
■ United States	Fiscal drag is checking some of recovery's upward momentum but these effects should wane as the year develops. The Fed is expected to begin to curtail the flow of asset purchases later in the second half but continue buying into 2014. A grand bargain on fiscal consolidation is likely to remain out of reach this year.
■ Euro Area	The euro area is likely to stay in recession in 1Q and recent comments by ECB Council Members suggest that the ECB will cut the refi rate by 25bp to 0.5% in May. Despite progress in some areas, the sovereign debt and banking crisis persists and is likely to continue to postpone the recovery.
■ China	Growth disappointed in 1Q, due mainly to policy-related consumption weakness which may last throughout the year. Financing conditions remained accommodative and policy neutralisation is likely to be delayed amid benign inflation. We have downgraded our 2013 growth forecast from 7.8% to 7.7%, with YoY growth accelerating slightly in 2Q and 3Q but heading down in 4Q.
■ Japan	The BoJ's policy decisions early this month overwhelmed even the most bullish forecasts among market participants. In our view, Governor Kuroda's strategy is to affect expectations by bold easing measures in order to shift the Phillips curve. However, it is uncertain when and how far expectations among the general public will shift as this is an unprecedented experiment of monetary policy. We remain sceptical that the measures taken so far are powerful enough to lift inflation to 2% on a sustained basis.
■ United Kingdom	Available data suggest that Q1 growth was around zero, with the economy continuing to underperform official and consensus expectations. Further loosening is likely.
■ Canada	The BoC is now likely to leave interest rates fixed until 1Q 2015, delayed from 3Q 2014, reflecting modest growth prospects and subdued inflation. However, it should retain a slightly hawkish bias to resist household sector imbalances.
■ Australia	Recent developments, including disappointing Chinese data, the BOJ's QE announcement and higher unemployment in Australia, suggest the RBA could act on its easing bias provided inflation surprises to the downside of expectations.
■ Emerging Asia (ex China)	Ex-Indonesia and Singapore, inflation concerns have receded in the region with the help of benign commodity prices, giving support for some extension of monetary accommodation. However, the country that has notable space to ease — Korea — surprisingly resisted even in the face of the BoJ's "bazooka". A gradual recovery is underway, but momentum of the export bounce seems to be fading, and political factors — North Korea and Malaysia elections — could raise near term uncertainties.
■ CEEMEA	Since monetary injection by the Bank of Japan is likely to fuel the demand for risky assets, high-yielding CEEMEA economies — eg Poland, Hungary, Turkey, South Africa, Russia — could find themselves on the receiving end of additional capital flows — which will be welcome by some more than others.
■ Lat Am	In Brazil, we now expect the monetary policy tightening cycle to begin in April with a 25bp hike. In Mexico, economic activity has softened a bit in the past couple of months, partially thanks to calendar effects, but we maintain our call for 3.6% GDP growth this year. Argentina's accelerated loss of international reserves adds a downward bias to our activity forecasts and an upward bias to our FX estimates. Finally, in Venezuela, Nicolás Maduro's tight win in the Presidential race suggests that his political capital is diminished and adds to already high uncertainty about the economic outlook.

Source: Citi Research

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

	2012	2013F	2014F
World	**1.7%**	**2.3%**	**3.8%**
United States	3.6	3.1	4.3
Japan	-0.9	-0.5	3.1
Euro Area	-2.3	-1.3	0.4
United Kingdom	-2.4	-1.0	0.8
Canada	1.2	0.6	1.7
China	10.0	9.6	9.1
India	3.1	4.4	5.6
Korea	0.9	2.9	5.4
Brazil	-2.7	2.2	3.5

Source: Citi Research

Overview — BoJ, EMU Strains and Global Capital Spending Trends

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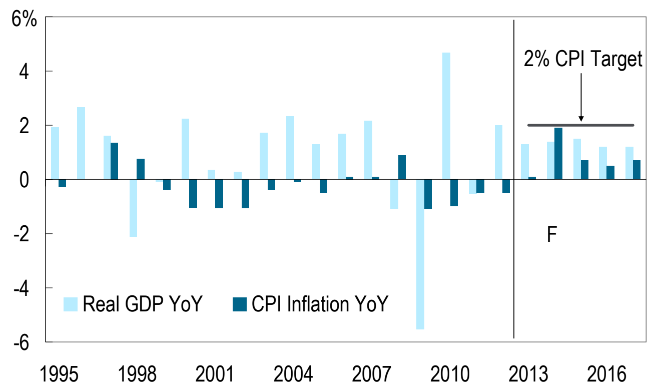
Our 2013 global growth forecast is slightly weaker this month, with small downgrades (0.1%) to our forecasts for China and the euro area. After 2.5% global growth (at current exchange rates) in 2012, we expect 2.6% growth in 2013 (revised down from 2.7% last month), gradually strengthening to 3.1% in 2014 and 3½%-4% YoY in 2015-17. Our forecast implies that global growth will be close to its 30-year average (2.8%) in 2013-14 combined, and a little above average thereafter, accompanied by a long period of very low interest rates in major advanced economies. Our 2013 global growth forecast matches the IMF's new projection (2.6%), but our 2014 forecast is below theirs (3.1% versus 3.4%), notably for China and the euro area. We highlight three major themes this month: Japan's monetary easing; the ongoing EMU crisis; and prospects for global capital spending.

BoJ — What Next, and Spillovers?

The BoJ's massive monetary expansion needs a weaker yen and buoyant asset prices to provide effective stimulus to the economy

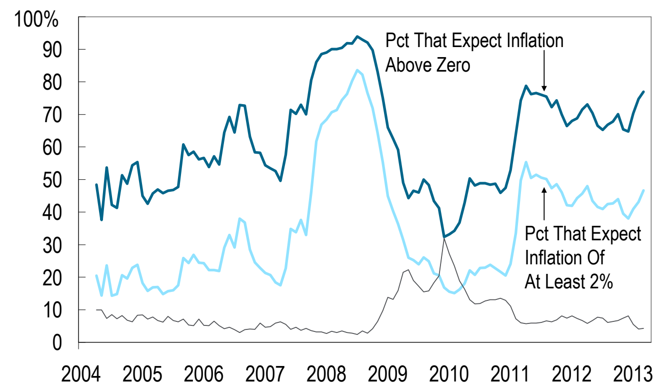
The BoJ's monetary stimulus program goes far beyond market expectations, and the BoJ's plans imply that its balance sheet will expand from 35% of annual GDP now to about 60% of GDP by end-2014 and doubling the stock of base money over that period, whereas the balance sheets of the Fed, BoE and Eurosystem central banks currently stand at about 20%, 26% and 28% of GDP respectively. The magnitude of the annual increase in the BoJ's balance sheet (about 12% of GDP) is more than twice what the Fed is doing. We do not believe the BoJ's balance sheet expansion by itself will boost demand: the key channels needed for easing to work are via yen weakness, domestic asset reflation, and lower expected real interest rates versus the new higher inflation target. The yen already has fallen by about 20% in trade-weighted terms since late 2012, with the real exchange rate close to the 2007 lows. We expect the yen to weaken by a further 5-10% versus the USD in coming months[1].

Figure 4. Japan — Actual and Forecast Path for Real GDP and CPI Inflation, YoY, 1995-17F



Sources: Datastream and Citi Research

Figure 5. Japan — Pct of People That Expect Inflation Above Zero, And Of At Least 2%, For Year Ahead, 2004-Mar 13



Note: We exclude the don't knows and one-person households.
Sources: Datastream and Citi Research

We expect the measures announced will provide some boost, but will not be enough to lift inflation to 2% on a sustained basis…

Even so, we doubt that the recently-announced monetary and fiscal measures — and further yen weakness that we anticipate — will be enough to fulfill the BoJ's stated aim of returning inflation to 2% on a sustained basis over the next 2-3 years. We expect modest real GDP growth of 1-2% YoY in coming years, while the government currently plans significant fiscal tightening via a consumption tax hike in April 2014. The economy has ample slack, nominal wages have been roughly flat

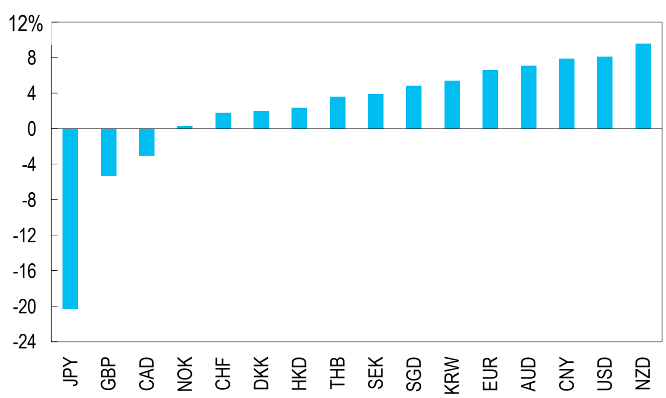
[1] See "Foreign Exchange Forecasts: April 2013", Jeremy Hale et al, 12 April 2013, Citi.

for about 20 years and the late-January announcement of the new inflation target did not destabilise household inflation expectations. Excluding the don't knows and one-person households, the share of households that expects inflation to be positive in the year ahead rose from 70% in January to 77% in March, while the share that expects inflation of at least 2% rose from 40% to 47%: but both measures are below the early-2011 levels. As a result, we expect that (excluding any one-off effects from the consumption tax hike), Japan's CPI inflation will rise only gradually, averaging about 1% YoY in coming years.

…and hence we expect that monetary policy will remain biased to further loosening, while debate over whether to postpone the consumption tax hike is likely to grow

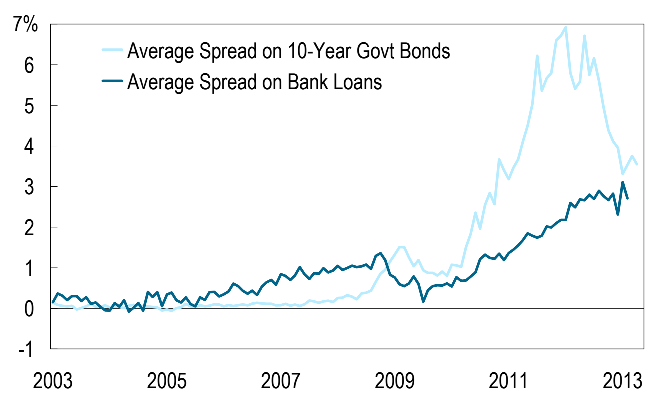
Uncertainties around Japan's inflation prospects are sizeable, and risks are by no means only on the downside. But if, as we suspect, Japan's economy does not quickly establish a path back to 2% underlying headline inflation, further policy changes are likely to be on the agenda, with the authorities leaning to a "whatever it takes" attitude. If the BoJ implements additional easing measures, we suspect they will likely put the focus on broadly defined risk assets such as equities and loans to SMEs. Moreover, Professor Hamada, a special advisor to Abe's Cabinet, recently suggested that the consumption tax hike scheduled in 2014 might be postponed if the economic outlook is uncertain[2]. If the government does postpone the consumption tax increase scheduled for 2014 (while leaving in place the temporary infrastructure investment stimulus), and the BoJ keeps increasing the size of its balance sheet by more than the size of the general government deficit (around 9-10% of GDP now), then the overall mix will be like an example of helicopter money[3]. Monetary policy is likely to be biased to stimulus for some time, and any eventual move to tightening seems very distant, unless inflation expectations surge.

Figure 6. Selected Countries — Change in Trade-Weighted Exchange Rates Since 1 Oct 2012



Sources: Datastream and Citi Research

Figure 7. Euro Area — Average Spreads Over Germany on Periphery 10-Year Govt Bonds and New Bank Lending, 2003-13



Note: We show the averages (compared to Germany) for Italy, Spain, Portugal and Ireland. For bank loan rates, we use the average rate on loans up to €1m on new loans above 1-year maturity. Sources: Datastream, ECB and Citi Research

Spillovers from the BoJ are likely to encourage loosening elsewhere

Spillovers from the BoJ's move are likely to reinforce pressure for lower official interest rates and/or non-standard easing in various other countries as strengthening currencies hit exports and cap inflation[4]. Moreover, advanced

[2] See "Japan Economics Weekly - Three keys to monitor over next three months", Kiichi Murashima, 12 April 2013, Citi.

[3] Helicopter money is usually used to describe fiscal loosening that is financed by permanent money creation. In Japan's case, the scale of monetary loosening will probably be vastly greater than any fiscal easing. Moreover, the monetisation is not necessarily permanent, in that the BoJ does have an inflation target that could require offsetting monetary tightening eventually.

[4] See "Asia Macro View - Impact of BoJ's Bazooka", Johanna Chua et al, 12 April 2013, Citi

economy government bond yields are likely to be capped to an extent as Japan's domestic investors seek high-quality substitutes with yields that exceed those on JGBs in absolute terms or currency-hedged. Channels for "cognitive contagion" are less clearcut, because Japan is a fairly unique case of extended deflation and economic weakness. The Fed has already laid out a path for extended stimulus, while the ECB's "whatever it takes" commitment extends to preserving the structure of the euro area and aiming for inflation a little below 2%, and not necessarily to lifting the economy out of stagnation. The BoE is probably the most likely central bank to loosen markedly, prompted by the more flexible remit and wider toolkit laid out in the Budget, and change in Governor from midyear. We expect the BoE to deliver a mix of further QE, credit easing and forward guidance in coming months.

EMU Crisis: What Next?

The periphery countries face a vicious circle of poor credit availability, fiscal drag and economic weakness

In the euro area, the Troika plan for Cyprus has reduced risks of an imminent "Cyprexit". However, the euro area's economic prospects remain poor. We expect the euro area to stay in recession for this year and 2014 — with deep recessions in most periphery countries — and with further episodic flareups of financial market tensions. Surveys and data suggest that euro area GDP fell again in Q1, with marked weakness in periphery countries other than Ireland (for which Q1 GDP may have risen marginally). The vicious circle between weak tax revenues and pressure for additional upfront fiscal tightening has been reduced by the focus on structural deficits. Nevertheless, there is still a vicious circle between poor bank credit availability, economic weakness and rising unemployment in most periphery countries. This is likely to be especially painful in Spain, Italy, Cyprus, Slovenia, and Portugal, because of the high reliance on bank funding in those economies, and heavy weight of small firms — which probably lack alternate sources of finance.[5] YoY credit growth (adjusted for securitizations) is minus 8.4% in Spain (record decline), minus 4.8% in Greece, minus 4.3% in Portugal, and minus 4.1% in Ireland.

Periphery countries are likely to need some form of external support for an extended period

With continued economic weakness, we expect that the periphery countries will need (and receive) external support for an extended period. For Ireland and Portugal[6], the further maturity extensions (a form of OSI) recently agreed probably will allow both countries to exit their official programmes in late 2013 or early 2014, followed by an ECCL ESM programme that imposes little or no additional conditionality on top of existing plans but opens the door to the possible use of the ECB's OMT facility. We suspect that Cyprus at some stage will probably undergo further major restructuring of bank liabilities and its first restructuring of sovereign liabilities, and/or EMU exit. These could be prompted either by a collective recognition that severe economic weakness will throw the programme badly off track or by a political decision in Cyprus to abandon the Troika plan. Italy and Spain eventually will enter some form of ESM programme this year. Some restructuring of government debts (possibly via OSI in some cases) and/or bank liabilities remains likely in a range of countries over time, including Portugal, Cyprus, Italy, Spain and Ireland,(in Ireland's case this will most likely be just focused on OSI). In our base case, we continue to assume that Greece and Cyprus will leave EMU over time.

The ECB is likely to cut rates soon, with debate over possible credit easing

There are numerous possible triggers that could cause market strains to escalate again. But even if financial tensions do not worsen further, we expect that the ECB will soon cut rates again, probably at the May meeting. Moreover, there is a growing drumbeat of requests for the authorities to act to improve credit availability in periphery countries. Various credit easing measures may be on the agenda, some of which could fall to the ECB and national central banks (eg looser collateral

[5] See "Euro Economics Weekly - Italy's Credit Crunch", Giada Giani, 12 April 2013, Citi.

[6] For Portugal, this is conditional on making up for the €1.3bn of cuts ruled out by the Supreme Court.

standards), some of which also would involve fiscal authorities (eg credit guarantees, FLS-type schemes), and some which fall to bank regulators (eg lower capital requirements on SME loans). Steps to facilitate the securitization of bank loans to SMEs also might help, and would require regulators, national authorities and the ECB (which would have to be willing to repo the securities or accept them as collateral for ELA) to work together. And of course the fiscal measures (guarantees for SME lending or subsidies for SME lending) would be possible only on a very limited scale in the countries that need it most, in the periphery where the sovereigns are barely solvent or insolvent. Moreover, any action would have to be unusually prompt and large if it is to significantly change the economic outlook or set the periphery countries on a path back to fiscal sustainability.

Global Investment Likely to Continue to Outpace GDP Growth

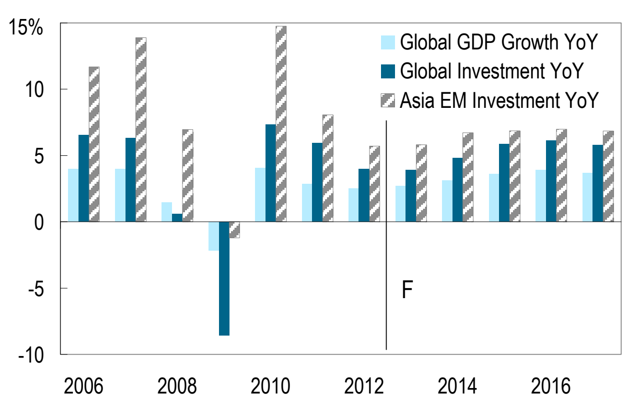
Global growth is likely to continue to be investment-led…

By region, global growth is likely to be Asia-led. By spending category, aggregate global investment spending is likely to continue to outpace global GDP growth, as in 2010-12. The countries covered in this report account for more than 90% of global GDP and, based on these, we expect global investment spending to rise by about 4% YoY in real terms in 2013 (similar to 2012), about 5% YoY in 2014 and about 6% YoY in 2015-17 (measured at actual and forecast exchange rates) — outpacing real GDP growth each year. The share of investment in global nominal GDP already hit a 20-year high (23-24%) in 2012 and probably will continue to rise, hitting 25-26% in 2017 (the highest for over 30 years). We expect aggregate capital spending in the countries covered in this report (in nominal USD terms) will rise from about $15,500bn in 2012 to about $23,100bn in 2017, roughly double the 2009 level.

…reflecting the rising weight in global activity of investment-intensive economies

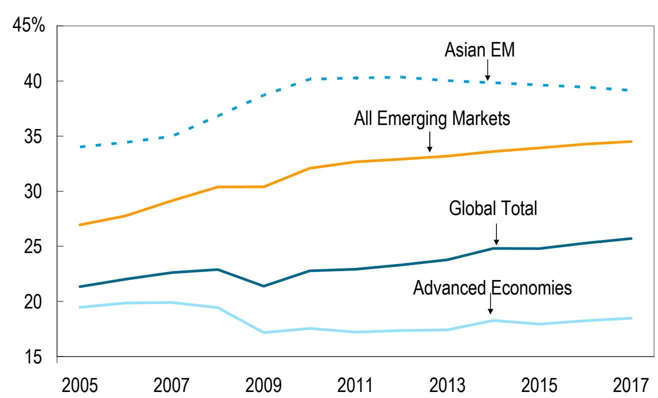
At first sight, this forecast that global investment will outpace GDP growth might seem counter-intuitive, given sluggish investment spending in advanced economies, and China's attempts to rebalance away from investment-led growth. Investment in advanced economies is likely to rise at a modest pace of 2-3% YoY on average over 2013-17 (versus EM investment growth of 6-7% YoY). Moreover, China's investment/GDP ratio probably already peaked at 49% in 2010, edging down to 48% in 2012 and, with more emphasis on consumer spending, probably will fall to 45-46% in 2017. However, at a global level, the key driver is the rising weight of China and other investment-intensive EM countries in global GDP and investment spending. This factor will probably cause the global investment/GDP ratio to go on rising even if China's growth becomes less investment-intensive.

Figure 8. Global — GDP and Investment Spending YoY, Real Terms, 2006-17F



Note: Citi forecasts for 2013-17. Measured at actual and forecast exchange rates.
Sources: IMF, Datastream and Citi Research

Figure 9. Global — Investment as Pct GDP (Nominal Terms), 2005-17F

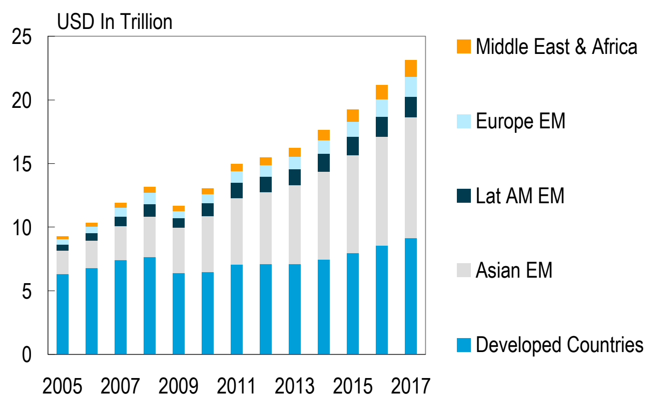


Note: Citi forecasts for 2013-17. Measured at actual and forecast exchange rates.
Source: Citi Research

Roughly 75% of the growth in capital spending from 2012-17 will be in emerging markets, we expect

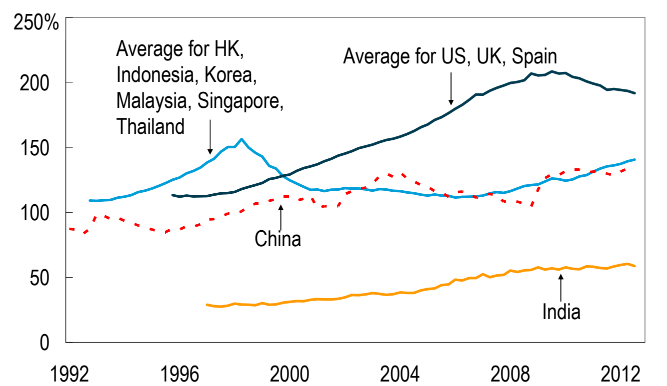
In nominal USD terms, investment spending in China overtook investment in the US in 2009. This year, we expect that investment in China will be roughly twice that in the US, and similar to investment in the US and euro area combined. In total, investment spending in emerging markets covered in this report has soared from \$2.9tn in 2005 to \$8.4tn in 2012, rising from 32% to 54% of global investment (based on countries in this report). We expect that investment spending in emerging markets will rise to about \$14.0tn in 2017, accounting for about 61% of global investment in that year (and roughly 75% of the *growth* in global investment from 2012 to 2017, measured in either nominal or real terms). Conversely, investment in the euro area probably will fall from 23% of the global total for investment spending in 2007 to just 12% of the global total in 2017, with investment in real terms in 2013 remaining about 13% below the 2007 level.

Figure 10. Global — Annual Investment Spending, Trillions of USD in Nominal Terms, 2005-17F



Note: Citi forecasts for 2013-17. Measured at actual and forecast exchange rates. Numbers based on countries covered in this publication. Source: Citi Research

Figure 11. Selected Countries — Private Debt/GDP Ratios, 1992-2012



Note: Debt of household and nonfinancial companies is shown relative to the 4-quarter average of nominal GDP. Data based on national accounts figures.
Sources: BIS, Datastream and Citi Research

Possible imbalances and private debt levels in emerging markets need to be monitored

To be sure, the global investment/GDP ratio cannot go on rising indefinitely, and policymakers in some EM countries are seeking to shift away from investment-led growth. EM current account balances are falling in aggregate terms and we have concerns over the rise in private debt/GDP ratios in some Asian EM countries, notably Singapore, Taiwan, Korea, China, India and Vietnam[7]. Worries over rising private debts may limit the monetary policy response in some Asian EM countries if growth undershoots this year. But, for now, we suspect global growth will remain investment-led, especially given the probable fuel from monetary and credit easing. The average private debt/GDP ratio (households and non-financial corporates) among Asian EM has risen by about 22 percentage points over the last five years[8], but this is far less than the rise seen in advanced economies in the pre-crisis boom (eg the private debt/GDP ratio rose by more than 100% in Spain from 1998 to 2008). The aggregate private debt/GDP for Asian EM (about 130%) is not very different to that in Germany (120%). Nevertheless, with advanced economy growth likely to remain subdued for some time, these potential imbalances in EM are likely to expand and deserve careful monitoring.

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[7] See "Asia Macro and Strategy Outlook - On the Lookout for Excessive Leverage", Johanna Chua et al, 1 March 2013, Citi.

[8] Note: Data for private debt published by the BIS.

Figure 12. Citi Global Economics Team *For Informational Purposes Only*

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Source: Citi Research.

Figure 13. Selected Countries — Economic Forecast Overview (Percent), 2012-2017F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F
Global	**2.5**	**2.6**	**3.1**	**3.6**	**3.7**	**3.7**	**2.9**	**2.7**	**3.0**	**2.4**	**2.4**	**2.5**	**2.34**	**2.24**	**2.41**	**2.71**	**3.07**	**3.42**
Based on PPP weights	*3.1*	*3.2*	*3.6*	*4.0*	*4.2*	*4.2*	*3.4*	*3.2*	*3.4*	*2.9*	*2.8*	*2.9*	*2.93*	*2.81*	*2.99*	*3.28*	*3.61*	*3.91*
Industrial Countries	**1.2**	**1.0**	**1.6**	**2.2**	**2.3**	**2.2**	**1.8**	**1.4**	**1.9**	**0.9**	**0.9**	**0.9**	**0.62**	**0.47**	**0.45**	**0.73**	**1.16**	**1.68**
United States	**2.2**	**1.9**	**2.8**	**3.2**	**3.2**	**3.0**	**1.8**	**1.3**	**2.1**	**2.1**	**2.1**	**2.1**	**0.25**	**0.25**	**0.25**	**0.75**	**1.65**	**2.50**
Japan	**2.0**	**1.3**	**1.4**	**1.5**	**1.2**	**1.2**	**0.0**	**0.1**	**1.9**	**0.7**	**0.5**	**0.7**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**
Euro Area	**-0.5**	**-0.6**	**-0.3**	**1.1**	**1.3**	**1.4**	**2.5**	**1.6**	**1.3**	**1.2**	**1.3**	**1.3**	**0.88**	**0.50**	**0.25**	**0.25**	**0.31**	**0.75**
Canada	1.8	1.5	2.5	3.0	3.0	2.8	1.5	1.1	1.7	2.0	2.0	2.0	1.00	1.00	1.00	1.63	2.44	3.00
Australia	3.6	2.7	3.1	3.5	3.6	3.2	1.8	2.8	2.5	2.8	2.5	2.3	3.56	2.81	3.25	4.00	4.75	4.75
New Zealand	2.2	2.6	2.8	3.0	3.4	3.1	1.1	1.2	2.3	2.3	2.8	2.5	2.50	2.50	3.50	4.75	5.00	5.00
Germany	0.9	0.8	0.8	1.8	1.9	2.1	2.0	1.4	2.1	2.0	2.0	1.8						
France	0.0	-0.2	0.2	1.0	1.5	1.9	2.0	1.0	1.5	1.4	1.7	1.4						
Italy	-2.4	-1.6	-1.2	0.2	0.3	0.5	3.3	1.9	1.2	0.5	0.2	0.2						
Spain	-1.4	-2.2	-2.1	0.9	1.5	1.2	2.4	1.6	0.7	0.8	0.7	0.6						
Greece	-6.4	-6.0	-11.2	-3.9	1.6	2.7	1.0	0.0	17.3	13.4	8.0	6.8						
Ireland	0.9	0.8	2.0	2.4	2.7	2.7	1.9	1.3	1.4	1.6	1.6	1.6						
Portugal	-3.2	-3.7	-2.8	0.0	1.1	1.0	2.8	0.3	0.5	0.5	0.6	0.5						
Netherlands	-1.0	-1.0	0.0	1.0	1.2	1.6	2.8	2.8	1.8	1.6	1.8	1.8						
Belgium	-0.2	-0.1	0.3	1.2	1.5	1.8	2.8	1.3	2.0	2.0	2.0	2.1						
Denmark	-0.5	0.4	1.7	1.8	1.9	2.0	2.4	1.5	1.7	1.9	2.0	2.0	0.43	0.10	0.20	0.40	0.60	1.00
Norway	3.3	2.6	2.7	3.0	2.9	2.9	0.7	1.6	1.7	2.0	2.1	2.5	1.55	1.50	1.69	2.25	2.76	3.33
Sweden	1.2	1.0	1.9	2.2	2.5	2.7	0.9	0.3	1.3	1.8	2.2	2.3	1.45	0.89	0.75	1.07	1.73	2.29
Switzerland	1.0	1.1	1.1	1.5	1.6	1.5	-0.7	-0.3	-0.4	0.6	0.8	1.0	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.3	0.4	0.7	1.8	1.7	2.0	2.8	2.9	2.7	2.9	2.9	2.9	0.50	0.50	0.50	0.50	0.50	1.04
Emerging Markets	**4.7**	**5.1**	**5.4**	**5.5**	**5.6**	**5.7**	**4.6**	**4.8**	**4.8**	**4.7**	**4.5**	**4.5**	**5.21**	**5.00**	**5.31**	**5.55**	**5.70**	**5.71**
China	**7.8**	**7.7**	**7.3**	**7.0**	**7.5**	**7.3**	**2.6**	**2.9**	**3.5**	**3.8**	**3.8**	**4.0**	**3.25**	**3.13**	**3.50**	**3.75**	**3.88**	**4.00**
Taiwan	1.3	3.5	4.0	4.0	4.5	4.5	1.9	1.7	1.9	1.8	1.8	1.8	1.88	1.88	1.97	2.38	2.88	3.38
India	5.0	5.7	6.4	7.2	7.3	7.4	7.3	6.5	6.0	6.0	6.0	6.0	7.80	7.50	7.50	7.50	7.50	7.50
Indonesia	6.2	6.2	6.3	6.5	6.5	6.7	4.3	5.6	4.1	5.7	5.4	5.3	3.90	4.19	4.50	4.63	5.13	5.30
Korea	2.0	3.2	4.1	3.9	4.2	3.7	2.2	2.3	3.0	3.2	3.1	3.0	3.06	2.81	3.44	3.75	4.13	4.38
Czech Republic	-1.3	-0.2	0.9	2.0	2.3	2.7	3.3	1.6	1.5	2.2	1.8	2.0	0.51	0.05	0.05	0.55	1.54	2.54
Hungary	-1.7	0.2	1.3	0.9	1.3	1.7	5.7	2.4	3.1	3.9	3.5	3.3	6.77	4.44	4.06	4.98	5.00	5.00
Poland	2.0	1.3	2.8	3.3	3.3	3.2	3.7	1.2	2.4	2.5	2.5	2.5	4.61	3.23	3.10	3.88	4.67	4.71
Romania	0.7	1.0	2.9	3.5	4.0	4.0	3.3	5.3	3.6	3.0	2.5	2.5	5.25	5.25	5.50	5.50	5.00	5.00
Russia	3.4	3.1	3.6	3.3	3.3	3.4	5.1	6.6	5.4	5.0	4.9	4.6	8.07	8.10	7.50	7.00	7.00	7.00
Turkey	2.2	4.0	4.3	4.2	4.4	4.4	8.9	7.4	7.3	6.9	6.4	5.8	5.69	5.19	6.88	8.00	8.00	7.50
Nigeria	7.4	6.8	7.1	6.6	6.8	7.0	12.2	9.2	9.7	12.2	10.8	9.9	12.00	11.50	10.50	12.50	11.00	9.00
South Africa	2.5	2.6	3.1	4.0	4.2	4.4	5.7	5.9	5.2	5.5	5.6	5.6	5.25	5.00	5.08	6.17	6.50	6.50
Argentina	1.9	3.0	3.0	2.0	-2.0	3.5	10.0	10.3	12.5	15.0	50.0	30.0	13.89	17.74	20.83	22.00	22.00	22.00
Brazil	0.9	3.1	4.0	3.5	3.5	3.7	5.4	6.3	5.7	5.3	4.8	4.5	8.46	8.00	8.75	9.13	9.25	8.75
Mexico	3.9	3.6	3.8	4.0	3.8	3.7	4.1	3.9	3.5	3.6	3.6	3.6	4.50	4.08	4.00	4.44	5.90	6.42
Venezuela	5.6	1.0	2.0	2.1	2.5	2.5	21.1	24.6	24.0	26.0	24.0	24.0	14.50	14.50	14.50	14.80	14.80	14.80

Note: For inflation, we use the PCE deflator in the US, wholesale price index in India, GDP deflator in Ireland. We assume Grexit in 2014. For Indonesia we refer to the FasB1 rate to reflect actual money market rates.
Source: Citi Research

Figure 14. Selected Countries — Economic Forecast Overview (Percent), 2012-2017F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F
Global	**0.3**	**0.4**	**0.3**	**-0.1**	**-0.2**	**-0.3**	**-4.4**	**-4.1**	**-3.3**	**-2.8**	**-2.6**	**-2.4**	**88**	**89**	**88**	**88**	**87**	**85**
Based on PPP weights	*0.1*	*0.2*	*0.0*	*-0.3*	*-0.4*	*-0.5*	*-4.2*	*-4.0*	*-3.3*	*-2.9*	*-2.7*	*-2.4*	*79*	*79*	*79*	*78*	*77*	*75*
Industrial Countries	**-0.7**	**-0.1**	**-0.2**	**-0.3**	**-0.2**	**-0.3**	**-6.0**	**-5.2**	**-3.9**	**-3.1**	**-2.8**	**-2.6**	**116**	**120**	**121**	**122**	**122**	**122**
United States	**-3.0**	**-2.7**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-8.3**	**-7.0**	**-4.9**	**-4.0**	**-4.0**	**-4.0**	**106**	**109**	**111**	**112**	**112**	**112**
Japan	**1.0**	**0.6**	**1.9**	**1.5**	**1.5**	**1.3**	**-10.7**	**-9.8**	**-7.0**	**-6.2**	**-5.8**	**-5.4**	**237**	**244**	**245**	**250**	**254**	**257**
Euro Area	**1.2**	**2.5**	**2.3**	**2.3**	**2.3**	**2.3**	**-3.5**	**-2.7**	**-2.4**	**-1.7**	**-1.3**	**-0.7**	**92**	**95**	**93**	**93**	**92**	**90**
Canada	-3.7	-3.0	-2.8	-1.9	-1.6	-1.3	-1.4	-1.0	-0.3	0.0	0.2	0.2	86	86	85	84	82	81
Australia	-3.7	-3.7	-4.7	-3.5	-3.2	-3.0	-3.0	-0.8	0.0	0.2	0.3	0.5	29	30	28	26	24	23
New Zealand	-5.0	-5.5	-6.8	-7.2	-6.5	-5.8	-5.3	-3.1	-0.9	-0.5	0.9	0.9	39	38	41	40	41	42
Germany	7.0	6.7	5.5	5.4	5.2	5.3	0.1	-0.2	-0.2	-0.2	-0.1	0.0	82	82	81	79	76	74
France	-2.4	-1.7	-0.9	-0.3	0.2	-0.1	-4.8	-3.6	-3.1	-2.4	-1.7	-0.4	90	95	97	97	95	92
Italy	-0.6	-0.3	-0.2	-0.1	-0.2	-0.2	-3.0	-3.5	-3.5	-3.1	-2.8	-2.7	127	133	139	142	143	144
Spain	-1.1	2.5	3.8	3.1	2.4	1.5	-10.6	-6.4	-5.9	-5.5	-4.7	-4.4	84	95	105	109	111	113
Greece	-4.3	-3.3	2.2	3.9	4.4	3.2	-7.3	-5.6	-1.1	-0.3	3.0	4.3	159	180	402	362	294	81
Ireland	4.4	4.6	5.3	5.8	6.5	6.9	-7.3	-7.4	-4.5	-2.3	-1.6	-1.2	117	122	121	117	114	111
Portugal	-3.5	-0.3	1.7	2.6	2.9	3.2	-6.4	-5.7	-6.1	-5.2	-4.6	-4.5	124	137	149	154	156	158
Netherlands	9.9	9.5	9.0	9.6	9.7	9.9	-4.2	-3.8	-3.2	-1.8	-1.5	-0.5	71	76	78	78	78	76
Belgium	-1.4	-1.3	-1.1	-0.7	-0.1	0.5	-2.9	-2.5	-2.0	-1.3	-0.8	-0.1	110	116	115	113	110	106
Denmark	5.6	5.0	4.3	4.2	4.0	3.8	-4.1	-2.0	-1.2	-1.0	0.5	1.0	46	47	46	46	43	41
Norway	14.2	14.5	14.9	15.2	15.4	15.0	13.9	13.3	13.0	14.0	15.5	15.0	NA	NA	NA	NA	NA	NA
Sweden	7.2	7.3	7.1	6.9	7.1	7.0	-0.5	-1.2	-1.5	-0.4	0.7	1.5	37	37	38	37	34	31
Switzerland	12.8	12.8	12.0	12.1	13.2	14.0	0.5	0.4	0.4	0.3	0.2	-0.6	47	46	44	44	44	44
United Kingdom	-3.7	-2.6	-2.9	-2.9	-3.0	-2.8	-6.3	-7.8	-7.3	-6.8	-5.4	-4.5	90	95	101	105	108	108
Emerging Markets	**1.8**	**1.3**	**0.8**	**0.2**	**-0.2**	**-0.5**	**-1.7**	**-2.2**	**-2.5**	**-2.4**	**-2.3**	**-2.1**	**42**	**41**	**41**	**39**	**38**	**37**
China	**2.3**	**2.2**	**2.0**	**1.5**	**0.8**	**0.5**	**-2.0**	**-2.0**	**-2.0**	**-1.5**	**-1.5**	**-1.0**	**43**	**42**	**41**	**39**	**37**	**35**
Taiwan	10.5	8.4	8.0	8.0	8.0	8.0	-1.6	-1.2	-1.3	-1.0	-0.7	-0.5	39	40	42	43	44	44
India	-5.3	-4.9	-4.4	-4.3	-4.0	-3.9	-7.3	-7.0	-6.7	-6.4	-6.1	-5.8	68	67	66	65	64	63
Indonesia	-2.8	-2.1	-1.8	-1.2	-0.9	-0.8	-1.8	-2.1	-1.4	-1.0	-0.5	-0.4	24	22	21	21	20	20
Korea	3.8	2.7	2.0	1.0	0.3	-0.5	1.4	0.8	1.4	2.5	2.7	2.0	34	35	32	30	29	27
Czech Republic	-2.3	-1.7	-2.0	-1.3	-1.1	-0.8	-4.4	-3.0	-2.7	-2.2	-1.5	-0.5	46	49	50	50	49	47
Hungary	1.6	2.6	3.4	4.2	4.9	5.6	-2.0	-2.7	-2.9	-3.0	-2.8	-3.0	79	79	79	78	77	76
Poland	-3.5	-2.8	-3.7	-4.4	-4.2	-4.2	-3.5	-3.5	-2.8	-2.5	-2.4	-2.4	53	53	52	51	50	50
Romania	-3.8	-3.8	-4.5	-4.7	-5.0	-5.0	-2.2	-2.2	-2.5	-2.3	-2.0	-2.0	41	40	39	38	37	37
Russia	4.0	2.8	0.9	-1.7	-3.2	-4.1	-0.7	-2.0	-4.1	-4.5	-3.9	-3.9	8	7	10	13	15	17
Turkey	-6.0	-7.0	-7.1	-6.9	-6.2	-5.4	-2.0	-2.2	-2.7	-2.7	-3.0	-3.0	39	37	36	36	36	36
Nigeria	2.5	3.7	3.3	2.0	1.4	0.5	-2.8	-2.6	-2.8	-3.3	-2.7	-2.8	NA	NA	NA	NA	NA	NA
South Africa	-6.0	-5.7	-5.5	-4.6	-3.3	-3.1	-4.4	-4.6	-4.4	-4.0	-3.5	-3.3	41	42	43	43	43	42
Argentina	0.1	0.4	0.2	0.2	3.0	1.0	-2.6	-2.7	-2.9	-3.8	0.0	-0.5	39	40	42	44	42	40
Brazil	-2.5	-3.1	-3.2	-3.4	-3.5	-3.6	-2.6	-3.5	-3.1	-2.9	-2.8	-2.7	59	59	59	59	60	60
Mexico	-1.1	-1.8	-1.9	-2.4	-2.8	-2.7	-2.6	-2.1	-2.0	-2.0	-2.0	-2.0	40	38	38	38	37	37
Venezuela	2.9	5.9	5.1	5.8	4.9	5.4	-5.0	-4.0	-4.0	-4.8	-4.6	-4.5	41	46	41	42	43	43

Note: Fiscal deficit and debt figures for all countries are general government debt and deficits. We assume sovereign debt restructuring in Portugal, Italy and Spain in 2015 and Greece in 2017. We assume Grexit in 2014. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€33.5bn). Source: Citi Research

Figure 15. Selected Countries — Changes in Economic Forecast from the Previous Month (Percentage Points), 2012-2014F

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Global		**-0.1**		**0.1**	**-0.1**	**-0.1**	**-0.1**		**0.1**			**0.1**
Based on PPP weights				*0.1*	*-0.1*	*-0.1*	*-0.1*			*0.1*		*0.1*
Industrial Countries		**-0.1**	**0.1**		**-0.2**			**0.2**	**0.1**		**0.3**	**0.2**
United States	**-0.1**	**-0.2**			**-0.4**							
Japan		**-0.2**	**0.1**		**0.1**	**0.1**		**0.3**	**0.4**			
Euro Area		**-0.1**			**-0.1**	**-0.2**		**-0.1**	**-0.2**	**-0.1**		
Canada		-0.1				-0.1		0.2	-0.1		-0.1	0.1
Australia		0.3	0.1				0.2	1.0	0.6			
New Zealand												
Germany					-0.2	-0.2		-0.1	-0.2			
France				-0.2		-0.2				-0.3		-0.1
Italy			0.2		-0.4	-0.2					-0.5	-0.3
Spain					-0.2		-0.3	0.2	0.1	-0.4		
Greece					-0.7	-0.2			0.1	0.1	0.1	0.2
Ireland	0.5	0.1	0.1	-0.8			-0.1	-1.2	-1.4	0.6	-0.3	-0.3
Portugal										-0.4		
Netherlands	-0.1				-0.1			-0.4		-0.1		0.1
Belgium					-0.2		-0.5	-0.6	-0.3		0.1	0.2
Denmark	0.1		-0.1		-0.3	-0.2	0.3	0.3	0.3	-0.3		
Norway		-0.2	-0.1		-0.1	-0.1				0.3	0.1	
Sweden					-0.1	-0.1						
Switzerland					0.1							
United Kingdom	0.1				-0.2	-0.2	-0.1	1.9	1.5	-0.5	0.6	0.7
Emerging Markets		**-0.1**					**-0.2**	**-0.1**	**-0.1**	**0.1**	**-0.1**	**-0.1**
China		**-0.1**			**0.1**	**-0.1**	**-0.3**	**-0.2**	**-0.2**			
Taiwan						-0.1						
India				-0.2	-0.5		-0.6	-0.6	-0.8	1.3	1.3	1.1
Indonesia					0.9	-0.6					-0.6	
Korea					-0.2			0.2	0.1		-0.3	
Czech Republic	-0.1				-0.5		-0.2	-0.2	-0.2	0.4		
Hungary		0.3	0.1		-0.3		-0.2	-0.4	-0.1	0.7	0.2	0.7
Poland					-0.5			-0.1	-0.2			
Romania	0.7		0.1				0.1					
Russia		0.1			-0.1		-0.1					0.1
Turkey	-0.3						-0.1	-0.2	-0.2			
Nigeria			-0.1		-0.6		0.0					
South Africa	0.1	-0.2				-0.1				0.6	0.6	0.6
Argentina					-2.3	-2.0	-0.6					
Brazil						0.2					-1.1	-0.9
Mexico					0.2	-0.1						
Venezuela							-1.6	0.9	-0.6			

Source: Citi Research

Figure 16. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent), 2012-2017F

	10-Year Yields						Exchange Rates Versus U.S. Dollar*						Exchange Rate Versus Euro					
	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F
Industrial Countries																		
United States	**1.77**	**2.05**	**2.85**	**3.25**	**3.50**	**3.75**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.28**	**1.28**	**1.23**	**1.21**	**1.24**	**1.28**
Japan	**0.85**	**0.63**	**0.63**	**1.00**	**1.25**	**1.50**	**81**	**103**	**105**	**104**	**103**	**101**	**104**	**132**	**129**	**127**	**128**	**129**
Euro Area	**1.57**	**1.41**	**1.48**	**1.80**	**2.00**	**2.50**	**1.28**	**1.28**	**1.23**	**1.21**	**1.24**	**1.28**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	1.87	2.05	2.85	3.50	3.50	3.65	1.00	1.02	1.00	0.97	0.96	0.95	1.28	1.31	1.23	1.17	1.20	1.22
Australia	3.28	3.59	4.14	5.00	5.50	5.20	1.03	1.03	0.98	0.95	0.94	0.92	1.24	1.24	1.25	1.27	1.33	1.38
New Zealand	3.61	3.85	4.50	5.20	5.80	5.50	0.82	0.85	0.83	0.79	0.78	0.76	1.57	1.50	1.48	1.53	1.60	1.68
Germany	1.57	1.41	1.48	1.80	2.00	2.50												
France	2.54	2.11	2.35	2.60	2.80	3.00												
Italy	5.49	4.87	5.30	5.30	5.00	5.00												
Spain	5.88	5.18	5.30	5.55	5.00	5.00												
Netherlands	1.95	1.81	1.95	2.20	2.30	2.80												
Belgium	2.43	2.31	2.55	2.70	3.00	3.20												
Denmark	1.51	1.57	1.60	1.95	2.25	2.75	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.15	2.21	2.28	2.55	2.75	3.25	5.81	5.82	5.95	5.98	5.81	5.64	7.45	7.45	7.30	7.24	7.23	7.21
Sweden	1.59	1.79	1.83	2.10	2.25	2.75	6.73	6.53	6.84	6.93	6.75	6.57	8.63	8.36	8.38	8.40	8.40	8.40
Switzerland	0.45	0.62	0.59	0.82	0.96	1.31	0.94	0.96	1.03	1.07	1.04	1.02	1.20	1.23	1.26	1.30	1.30	1.30
United Kingdom	1.85	2.05	2.35	3.00	3.25	3.75	1.59	1.48	1.41	1.42	1.50	1.58	0.81	0.86	0.87	0.85	0.83	0.81
Emerging Markets																		
China	**3.33**	**3.61**	**3.86**	**4.11**	**4.24**	**4.36**	**6.31**	**6.16**	**6.05**	**6.01**	**6.03**	**6.05**	**8.11**	**7.88**	**7.42**	**7.28**	**7.50**	**7.73**
Taiwan	1.21	1.32	1.43	1.50	1.70	2.00	29.57	30.22	29.74	28.92	28.64	28.38	38.03	38.70	36.47	35.05	35.65	36.27
India	8.25	8.25	8.25	8.25	8.25	8.25	53.38	55.31	56.03	55.31	54.74	54.17	68.65	70.81	68.71	67.03	68.14	69.24
Indonesia	5.90	5.68	5.93	6.30	6.60	6.80	9361	9848	9813	9643	9588	9535	12038	12609	12034	11688	11936	12187
Korea	3.24	2.86	3.61	4.35	5.00	5.15	1127	1137	1061	995	992	990	1449	1456	1301	1206	1235	1265
Czech Republic	2.75	2.06	2.40	2.73	3.27	3.27	19.5	20.2	20.7	20.1	19.1	18.3	25.1	25.9	25.3	24.3	23.8	23.3
Hungary	7.91	5.88	6.06	6.50	6.50	6.50	225	233	241	239	233	227	289	298	295	290	290	290
Poland	NA	NA	NA	NA	NA	NA	3.25	3.25	3.31	3.21	3.10	2.99	4.18	4.16	4.06	3.89	3.86	3.82
Romania	NA	NA	NA	NA	NA	NA	3.46	3.40	3.46	3.40	3.21	2.97	4.45	4.35	4.24	4.12	3.99	3.80
Russia	NA	NA	NA	NA	NA	NA	31.1	32.1	33.8	34.2	33.8	33.3	40.0	41.1	41.5	41.5	42.1	42.6
Turkey	NA	NA	NA	NA	NA	NA	1.80	1.85	1.93	1.96	1.94	1.92	2.32	2.37	2.36	2.38	2.42	2.46
Nigeria	NA	NA	NA	NA	NA	NA	159	161	164	168	171	175	204	206	201	204	213	224
South Africa	7.15	6.87	8.00	9.15	9.20	9.25	8.21	9.31	9.59	9.73	9.81	9.90	10.56	11.92	11.77	11.79	12.21	12.65
Argentina	NA	NA	NA	NA	NA	NA	4.54	5.46	6.74	8.72	13.45	18.82	5.84	6.99	8.26	10.57	16.74	24.05
Brazil	9.31	8.73	10.75	11.13	10.00	9.50	1.95	1.98	2.01	2.07	2.13	2.18	2.51	2.54	2.47	2.51	2.65	2.79
Mexico	5.70	4.97	5.74	6.63	7.06	7.95	13.2	12.0	12.0	12.3	12.3	12.3	16.9	15.3	14.7	14.9	15.3	15.7
Venezuela	11.26	10.91	10.66	15.50	15.50	15.50	4.29	6.13	6.30	9.75	10.50	12.71	5.52	7.85	7.73	11.82	13.07	16.24

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

Figure 17. Short Rates (End of Period), as of 17 April 2013 (Percent)

	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14
United States	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Japan	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**
Euro Area	**0.75**	**0.50**	**0.50**	**0.25**	**0.25**	**0.25**	**0.25**
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Australia	3.00	2.75	2.75	2.75	2.75	3.00	3.50
New Zealand	2.50	2.50	2.50	2.50	2.75	3.00	3.25
Denmark	0.30	0.20	0.10	0.10	0.20	0.30	0.30
Norway	1.50	1.50	1.50	1.50	1.50	1.75	1.75
Sweden	1.00	1.00	0.75	0.75	0.75	0.75	0.75
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	0.50
China	**3.00**	**3.00**	**3.00**	**3.25**	**3.50**	**3.50**	**3.50**

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

Figure 18. 10-Year Yield Forecasts (Period Average), as of 17 April 2013 (Percent)

	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14
United States	**1.72**	**1.86**	**2.13**	**2.38**	**2.63**	**2.83**	**3.00**
Japan	**0.58**	**0.50**	**0.60**	**0.70**	**0.60**	**0.50**	**0.70**
Euro area (Germany)	**1.29**	**1.40**	**1.40**	**1.30**	**1.30**	**1.40**	**1.50**
Canada	1.73	1.85	2.10	2.35	2.60	2.80	3.00
Australia	3.30	3.50	3.65	3.80	3.90	4.00	4.25
New Zealand	3.26	3.75	3.90	4.05	4.15	4.30	4.50
Denmark	1.44	1.55	1.60	1.45	1.40	1.50	1.60
Norway	2.12	2.15	2.15	2.10	2.05	2.25	2.30
Sweden	1.68	1.80	1.75	1.70	1.65	1.75	1.85
Switzerland	0.60	0.64	0.64	0.61	0.61	0.64	0.67
United Kingdom	1.70	1.90	2.15	2.10	2.15	2.30	2.45

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

Figure 19. 10-Year Yield Spreads (Period Average), as of 17 April 2013

	Spread vs. US$						Spread vs. Germany					
	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**44**	**47**	**74**	**109**	**135**	**145**
Japan	**-123**	**-127**	**-144**	**-179**	**-215**	**-215**	**-79**	**-80**	**-70**	**-70**	**-80**	**-70**
Euro Area	**-44**	**-47**	**-74**	**-109**	**-135**	**-145**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	1	-1	-3	-3	-3	-3	45	46	71	106	132	142
Australia	160	166	154	144	129	119	204	213	228	254	264	264
New Zealand	156	192	180	170	155	150	200	239	254	279	289	295
France	10	13	-4	-19	-45	-55	53	60	70	90	90	90
Italy	252	278	276	316	265	255	295	325	350	425	400	400
Spain	293	303	306	316	265	255	336	350	380	425	400	400
Netherlands	-2	-7	-29	-59	-85	-95	41	40	45	50	50	50
Belgium	32	33	16	1	-25	-35	75	80	90	110	110	110
Austria	2	-17	-39	-69	-85	-95	45	30	35	40	50	50
Finland	-25	-22	-44	-69	-95	-105	18	25	30	40	40	40
Ireland	208	203	176	141	190	180	251	250	250	250	325	325
Denmark	-28	-32	-54	-94	-125	-135	15	15	20	15	10	10
Norway	40	28	1	-29	-60	-60	83	75	75	80	75	85
Sweden	-4	-7	-39	-69	-100	-110	39	40	35	40	35	35
Switzerland	-112	-123	-150	-178	-204	-221	-69	-76	-76	-69	-69	-76
United Kingdom	-2	4	2	-28	-49	-54	41	51	76	81	86	91

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

Figure 20. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as of 17 April 2013

Country	Current Rate (%)	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Total Cumulative Rate Moves Expected
Brazil	7.25	75	75	0	0	0	150
Turkey	5.00	-25	0	0	50	75	100
Israel	1.75	0	0	0	25	50	75
Korea	2.75	0	0	25	25	25	75
Philippines	3.50	0	0	0	25	50	75
Thailand	2.75	0	0	50	25	0	75
China	3.00	0	0	25	25	0	50
Indonesia	4.00	25	0	0	25	0	50
Romania	5.25	0	0	0	25	0	25
Czech	0.05	0	0	0	0	0	0
Mexico	4.00	0	0	0	0	0	0
South Africa	5.00	0	0	0	0	0	0
Chile	5.00	0	-25	-25	0	25	-25
India	7.50	-25	0	0	0	0	-25
Poland	3.25	0	-25	0	0	0	-25
Russia	8.25	0	-25	-25	0	-25	-75
Hungary	5.00	-75	-25	0	0	0	-100

Source: Citi Research

Figure 21. Foreign Exchange Forecasts (End of Period), as of 17 April 2013

	vs. USD						vs. EUR					
	Current	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Current	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.31**	**1.31**	**1.28**	**1.25**	**1.24**	**1.23**
Japan	**99**	**107**	**106**	**105**	**105**	**105**	**130**	**139**	**135**	**132**	**130**	**129**
Euro Area	**1.31**	**1.31**	**1.28**	**1.25**	**1.24**	**1.23**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	1.01	1.02	1.03	1.03	1.02	1.01	1.32	1.33	1.31	1.29	1.27	1.24
Australia	1.06	1.05	1.03	1.00	0.99	0.99	1.24	1.25	1.25	1.25	1.25	1.25
New Zealand	0.86	0.87	0.86	0.85	0.84	0.83	1.52	1.51	1.49	1.47	1.48	1.48
Norway	5.71	5.75	5.81	5.87	5.91	5.94	7.48	7.51	7.43	7.36	7.33	7.31
Sweden	6.35	6.40	6.53	6.68	6.75	6.81	8.32	8.35	8.36	8.37	8.38	8.38
Switzerland	0.93	0.94	0.96	0.98	1.00	1.02	1.22	1.23	1.23	1.23	1.24	1.26
United Kingdom	1.54	1.51	1.47	1.43	1.42	1.41	0.85	0.86	0.87	0.88	0.88	0.87
China	**6.19**	**6.17**	**6.14**	**6.10**	**6.08**	**6.06**	**8.1**	**8.1**	**7.9**	**7.7**	**7.6**	**7.5**
India	54.5	54.9	55.7	56.4	56.3	56.1	71.3	71.7	71.2	70.7	69.9	69.1
Korea	1129	1168	1145	1123	1099	1074	1479	1525	1466	1408	1364	1322
Poland	3.15	3.15	3.25	3.35	3.34	3.32	4.12	4.12	4.16	4.20	4.15	4.09
Russia	30.9	31.8	32.5	33.2	33.5	33.7	40.5	41.6	41.6	41.6	41.5	41.5
South Africa	8.92	9.18	9.33	9.48	9.53	9.57	11.68	11.99	11.94	11.88	11.84	11.79
Turkey	1.79	1.83	1.86	1.89	1.90	1.92	2.34	2.40	2.38	2.36	2.36	2.36
Brazil	1.98	1.96	1.97	1.98	1.99	2.01	2.59	2.55	2.52	2.48	2.47	2.47
Mexico	12.0	12.0	11.9	11.8	11.8	12.0	15.8	15.6	15.2	14.7	14.7	14.7

Source: Citi Research

Figure 22. Foreign Exchange Forecasts (End of Period), as of 17 April 2013

	vs. JPY					
	Current	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14
United States	**99**	**107**	**106**	**105**	**105**	**105**
Japan	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Euro Area	**130**	**139**	**135**	**132**	**130**	**129**
Canada	98	104	103	102	103	104
Australia	105	112	109	105	104	103
New Zealand	85.7	92.3	90.9	89.4	88.4	87.3
Norway	17.4	18.5	18.2	17.9	17.8	17.7
Sweden	15.6	16.7	16.2	15.7	15.6	15.4
Switzerland	107	113	110	107	105	103
United Kingdom	153	161	155	150	149	148
China	**16**	**17**	**17**	**17**	**17**	**17**
India	1.83	1.94	1.90	1.86	1.86	1.87
Korea	11.36	10.96	10.82	10.68	10.46	10.22
Poland	31.6	33.8	32.6	31.4	31.4	31.6
Russia	3.2	3.3	3.3	3.2	3.1	3.1
South Africa	11.1	11.6	11.3	11.1	11.0	11.0
Turkey	55.6	58.1	56.9	55.7	55.2	54.7
Brazil	50.3	54.5	53.8	53.1	52.7	52.3
Mexico	8.3	8.9	8.9	8.9	8.9	8.8

Source: Citi Research

Country Commentary

United States

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We continue to expect that economic growth this year will be close to 2½% (4Q/4Q) and pick up further in 2014. Support for expansion has improved with moderate but sustained job gains, more effective monetary accommodation as reflected in buoyant financial markets, and the rippling effects of reviving housing. Short-term volatility due in part to weather distortions has provided an extra lift to Q1 GDP but consumer discretionary spending has softened post tax hikes. Fiscal drag is nearing its peak impact in the next several months as sequestration is implemented. The recovery's underlying momentum also may buffer some of the effects of deficit reduction. Our base case fiscal outlook does not anticipate major reforms.

The Federal Reserve's aggressive forward guidance and open-ended bond-buying have yielded the longest stretch of accommodative financial conditions since the late-1990s. The drag from fiscal restraint and Fed officials' high bar for satisfactory job growth will likely sustain QE at an elevated pace through the first half. Beyond that, officials may begin to curtail the pace of QE by the start of Q4. High unemployment and low inflation suggest no start to exit strategies through 2014.

The outlook for inflation remains relatively benign with recent underlying price trends softer than long-term policy targets. Seasonal biases have firmed core CPI slightly but the patterns in PCE measures are more muted. We expect inflation to stabilise close to its 2% target this year with modest cyclical pressures thereafter as global growth firms and wage costs rise with continued gains in hiring demand.

Figure 23. United States — Economic Forecasts, 2012-2014F

					2012	2013				2014		
		2012	2013F	2014F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
GDP	SAAR				0.4%	2.8%	1.1%	2.6%	2.9%	3.1%	2.9%	3.1%
	YoY	2.2%	1.9%	2.8%	1.7	1.9	1.8	1.7	2.4	2.4	2.9	3.0
Domestic Demand	SAAR				1.5	1.5	1.3	2.6	3.0	3.4	3.3	3.5
	YoY	2.0	1.7	3.1	1.8	1.6	1.6	1.7	2.1	2.6	3.1	3.3
Consumption	SAAR				1.8	2.7	1.1	2.6	2.9	3.5	3.2	3.5
	YoY	1.9	2.0	3.1	1.8	1.9	1.8	2.1	2.3	2.5	3.0	3.3
Business Investment	SAAR				13.2	-0.3	4.7	5.9	7.1	6.9	6.4	6.4
	YoY	8.0	4.3	6.5	5.5	3.5	3.8	5.8	4.3	6.1	6.6	6.7
Housing Investment	SAAR				17.6	10.2	13.7	19.4	21.1	17.2	21.0	18.6
	YoY	12.1	14.4	18.6	14.9	12.4	13.7	15.2	16.0	17.8	19.7	19.5
Government	SAAR				-7.0	-3.3	-1.3	-1.2	-1.2	-1.0	-0.8	-0.8
	YoY	-1.7	-2.2	-1.0	-1.8	-1.9	-2.0	-3.2	-1.8	-1.2	-1.1	-1.0
Exports	SAAR				-2.8	2.1	3.4	4.0	4.1	4.7	4.1	4.6
	YoY	3.4	1.9	4.3	2.1	1.6	1.1	1.6	3.4	4.0	4.2	4.4
Imports	SAAR				-4.2	4.1	2.4	3.8	4.4	5.6	5.8	5.8
	YoY	2.4	1.5	5.0	0.2	0.5	0.4	1.5	3.7	4.1	4.9	5.4
PCE Deflator	YoY	1.8	1.3	2.1	1.6	1.2	1.1	1.3	1.4	1.7	2.2	2.2
Core PCE Deflator	YoY	1.7	1.5	2.1	1.5	1.3	1.3	1.5	1.8	2.0	2.1	2.1
Unemployment Rate	%	8.1	7.6	7.0	7.8	7.7	7.7	7.6	7.3	7.2	7.0	6.9
Federal Gov't Balance (Fiscal Year)	$Bn	-1089	-790	-615								
	% of GDP	-7.0	-5.0	-3.5								
General Gov't Balance (Cal Year)	% of GDP	-8.3	-7.0	-4.9								
Federal Debt	% of GDP	72	75	76								
General Gov't Debt	% of GDP	106	109	111								
Current Account	US$bn	-471	-437	-465	-442	-407	-386	-390	-389	-395	-405	-421
	% of GDP	-3.0	-2.7	-3.0	-2.8	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.5
S&P 500 Profits (US$ Per Share)	YoY	6.1	6.0	6.4	7.2	5.0	6.3	6.0	6.8	6.4	6.7	6.7

Notes: F Citi forecast. E Citi Estimate. YoY Year-to-year percent change. SAAR Seasonally adjusted annual rate
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, I/B/E/S, Treasury Department, *Wall Street Journal* and Citi Research

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Japan

The BoJ's policy decisions early this month overwhelmed even the most bullish forecasts among market participants. Apart from the scale of the planned balance sheet expansion, it is noteworthy that the BoJ now puts much less weight on market function and fiscal discipline than under the previous leadership. First, the BoJ's new JGB purchase program is so large that the JGB markets have become dysfunctional, with unusually high market volatility. Second, policymakers suspended the self-imposed "banknote rule," a mechanism that puts a brake on financing the government debt. These decisions indicate that the BoJ's assessment of cost-benefit trade-offs over monetary policy options has fundamentally changed.

In our view, Governor Kuroda's strategy is to affect *expectations* among consumers, companies and market participants by bold easing measures in order to shift the Phillips curve and achieve 2% inflation in a relatively short timeframe. However, it is uncertain when and how far expectations among the general public will shift, given the unprecedented experiment of monetary policy. We remain sceptical that the measures taken so far are powerful enough to change stubborn deflationary expectations into inflationary expectations. Heavy fiscal drag from the consumption tax hike planned for April 2014 also may make it hard to change price expectations.

From here, we expect financial markets to gradually shift their focus to three developments: 1) Economic fundamentals, 2) the growth strategy that the Abe administration plans to publish in June and 3) the administration's possible clarification of its stance on the consumption tax hike. While we expect positive news from economic data (in part thanks to market developments since last autumn), there remain significant uncertainties surrounding whether the administration can craft a compelling growth strategy that will improve the growth potential of the economy. Meanwhile, discussions on whether or not to implement the consumption tax hike as planned may accelerate ahead of the Upper House Election this summer and this will be a key factor shaping the outlook for economic activity, prices and financial markets heading into 2014, in our view.

Figure 24. Japan — Economic Forecasts, 2012-14F

					2012	2013F				2014F		
		2012	2013F	2014F	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Real GDP	YoY	2.0%	1.3%	1.4%	0.4%	-0.6%	0.5%	2.4%	3.0%	3.5%	1.1%	0.5%
	SAAR				0.2	2.1	3.5	4.1	2.4	4.2	-6.0	1.7
Domestic Demand	YoY	2.8	1.7	0.2	1.3	0.5	1.2	2.3	2.7	2.9	0.0	-0.8
	SAAR				0.8	2.0	3.0	3.5	2.3	2.7	-8.1	0.2
Private Consumption	YoY	2.4	1.4	0.4	1.2	0.8	1.0	1.9	1.9	2.5	-0.1	-0.3
	SAAR				2.0	3.3	0.7	1.7	2.0	5.7	-9.1	0.9
Business Investment	YoY	2.0	-1.2	4.2	-7.1	-5.2	-4.2	1.0	4.0	6.3	4.9	3.3
	SAAR				-5.7	-2.0	3.9	8.2	6.0	7.1	-1.6	2.0
Housing Investment	YoY	2.9	9.6	-7.1	5.8	10.1	10.1	11.0	7.4	2.9	-7.3	-11.4
Public Investment	YoY	12.5	9.5	-11.7	20.2	9.0	10.0	10.0	9.0	2.0	-13.0	-17.5
Exports	YoY	-0.2	-0.8	5.4	-5.5	-7.0	-5.2	2.0	8.0	7.2	6.0	4.8
	SAAR				-14.0	7.2	8.2	8.6	8.1	4.0	3.4	3.6
Imports	YoY	5.3	2.2	-2.1	0.9	0.6	0.2	1.8	6.2	2.6	-1.6	-4.2
	SAAR				-9.0	7.4	5.1	4.5	7.7	-6.3	-11.1	-6.1
CPI	YoY	0.0	0.1	1.9	-0.2	-0.5	-0.1	0.4	0.5	0.5	2.5	2.4
Core CPI	YoY	-0.1	0.1	1.9	-0.1	-0.3	0.0	0.3	0.5	0.5	2.5	2.4
Nominal GDP	YoY	1.1	0.6	2.1	-0.2	-1.6	-0.4	1.8	2.5	3.3	2.2	1.6
Current Account	¥ tn	4.7	3.1	9.3	3.1	2.2	2.6	3.7	3.9	6.0	9.1	11.0
	% of GDP	1.0	0.6	1.9	0.6	0.5	0.6	0.8	0.8	1.2	1.9	2.3
Unemployment Rate	%	4.3	4.1	4.0	4.2	4.2	4.1	4.0	3.9	4.0	4.0	4.1
Industrial Production	YoY	-0.9	-0.5	3.1	-5.9	-6.4	-3.3	2.2	6.0	5.9	3.1	2.2
Corporate Profits (Fiscal Year)	YoY	5.0	37.5	-5.0								
General Govt. Balance (Fiscal Year)	% of GDP	-10.7	-9.8	-7.0								
General Govt Debt	% of GDP	237	244	245								

F Citi forecast. SAAR Seasonally adjusted annual rate. YoY Year-to-year percent change. Corporate profits are TSE-I nonfinancials consolidated recurring profits.
Source: Citi Research

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Euro Area

We are slightly cutting our 2013 GDP forecast to -0.6% YoY from -0.5%, but leave the 2014 forecast unchanged at -0.3%. Activity data suggest that the recession continued in Q1. Weakness in sentiment indicators (which we expect will deteriorate further in coming months) points to GDP growth around zero in the remainder of the year. Partly due to lower energy prices, we revise down our inflation forecast for 2013 and 2014 to 1.6% and 1.3% respectively (from 1.7% and 1.5% last month).

There is some progress on the political front, including the likely approval of the Cyprus rescue package, agreement in principle to extend the maturity of official loans to Portugal and Ireland, and progress on the approval of the SSM. However, there has been almost no progress in giving the ESM the right to recapitalise banks directly. The Commission has said it intends to present a proposal for an SRM in June, but there is sizable disagreement between member states over how to fund this. Moreover, the economic situation in most periphery countries remains bleak. The Portuguese government struggles to find extra savings after the constitutional court decision, Italy's politics remain very fragile and rising unemployment will probably lift political risks and social unrest risks in almost all periphery countries. In our view, Greece and Cyprus remain likely to leave the monetary union over time.

Available data suggest that the Cyprus rescue package, including the bail-in of non-insured deposits, has not led so far to deposit flight in other countries. Without increased pressure on bank funding, additional far-reaching non standard measures are unlikely for the time being. While the ECB wants to contribute to improving lending conditions to SMEs, we suspect the central bank will take only limited action, targeting a reduction in the valuation haircuts on such loans when used as collateral for the ECB operations. Recent comments suggest that more Council members acknowledge the ongoing economic weakness and falling inflationary pressure, suggesting that the ECB will cut the refi rate by 25bp to 0.5% in May. We still expect a further refi rate cut in the reminder of the year to 0.25%. While a negative deposit rate at that stage is still possible, it is not our base case.

Figure 25. Euro Area — Economic Forecasts, 2012-14F

					2012	2013F				2014F		
		2012	2013F	2014F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	-0.5%	-0.6%	-0.3%	-0.9%	-0.9%	-0.7%	-0.6%	-0.2%	-0.4%	-0.4%	-0.4%
	SAAR				-2.3	-0.2	0.2	0.0	-0.8	-1.0	0.1	0.2
Final Domestic Demand	YoY	-1.5	-0.9	-0.2	-1.7	-1.4	-0.9	-0.9	-0.5	-0.5	-0.4	-0.1
Private Consumption	YoY	-1.2	-0.5	0.2	-1.2	-1.0	-0.6	-0.5	0.0	0.0	0.1	0.3
Government Consumption	YoY	-0.1	-0.8	-0.5	-0.2	-0.4	-0.5	-1.0	-1.4	-1.2	-1.0	-0.2
Fixed Investment	YoY	-3.9	-2.3	-1.2	-4.9	-3.9	-2.4	-1.8	-1.2	-1.3	-1.2	-1.5
— Business Equipment	YoY	-3.4	-2.2	-1.3	-5.1	-4.1	-2.5	-1.3	-0.8	-1.2	-0.8	-1.9
— Construction	YoY	-4.3	-2.6	-1.0	-4.7	-3.9	-2.5	-2.4	-1.6	-1.5	-1.4	-0.9
Stocks (Contrib. to Y/Y GDP Growth)		-0.4	-0.2	0.0	-0.3	-0.3	-0.4	-0.1	-0.1	-0.1	0.0	0.0
Exports	YoY	2.9	2.1	0.8	2.2	2.5	1.8	1.5	2.4	1.1	0.6	0.4
Imports	YoY	-0.9	0.4	0.5	-0.6	0.2	0.0	0.2	1.1	0.3	0.2	0.4
CPI	YoY	2.5	1.6	1.3	2.3	1.8	1.6	1.6	1.3	1.3	1.3	1.2
Core CPI	YoY	1.5	1.3	1.1	1.5	1.3	1.2	1.5	1.3	1.2	1.2	1.0
CPI Ex Energy and Food	YoY	1.8	1.6	1.2	1.6	1.5	1.6	1.7	1.6	1.4	1.3	1.1
Unemployment Rate	YoY	11.4	12.2	12.4	11.8	12.0	12.1	12.2	12.3	12.4	12.4	12.5
Current Account Balance	EUR bn	118.3	242.2	224.2								
	% of GDP	1.2	2.5	2.3								
General Government Balance	EUR bn	-329.9	-262.8	-231.7								
	% of GDP	-3.5	-2.7	-2.4								
Primary Balance	% of GDP	-0.4	0.3	0.6								
General Government Debt	EUR bn	8,703.3	9,106.8	9,101.4								
	% of GDP	91.7	94.7	93.4								
Gross Operating Surplus	YoY	-0.1	0.0	0.2								

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

Germany

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We leave our economic forecasts roughly unchanged, but are cutting the inflation forecasts partly due to recent softer CPI data and lower oil prices. While we expect further declines in sentiment indicators in coming months, available data so far continue to support our forecast of broad-based economic recovery in 1H 2013. We do not expect major action on the political side, given the approaching general election and the ability of the SPD and Greens (with their majority in the upper house) to block initiatives of the ruling CDU/CSU and FDP coalition. Angela Merkel is likely to stay as chancellor, and the CDU/CSU saw improving support in recent polls. But, the election outcome remains uncertain because it is still unclear if the FDP will be able to enter parliament. In addition, the new eurosceptic party "Alternative for Germany" might get more attention in the election campaign.

France

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With the resignation of Budget minister Cahuzac and some cabinet ministers openly criticising the government's "austerity" strategy, all eyes are on France this spring. We believe that the French economy is on the cusp of a triple-dip recession, and expect that GDP growth in 2013 and 2014 (averaging zero) will disappoint compared to both the EU Commission and consensus forecasts. We believe that the combination of a weak economic environment in the euro area, the precedent of fiscal target relaxation and the new EU focus on structural budget deficits make it unlikely that the government will find the sums needed (at least €20bn, 1% of GDP) to beat the 2.9% 2014 budget deficit objective. While the government's very low (and still falling) popularity levels highlight some implementation risks, we think that more reforms aimed at reducing France's high share of public expenditure will have to be initiated in the coming quarters and years to reassure voters and investors.

Italy

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The recession is likely to remain deep in H1 13. Fiscal tightening is severe, although less than in 2012, and credit conditions are very tight due to banks' weak capital and worsening asset quality. However, the recently-approved €40bn repayment in government arrears (2.5% of GDP) will likely lift GDP in Q4 13 and 2014 (by about 0.4%), mainly via higher investment. But this will likely lift the fiscal deficit above 3% of GDP this year, as political uncertainties likely will prevent measures to counteract the widening trend. Settling arrears would also lift the debt ratio by about 3pp, taking it close to 140% in 2014 on our estimates. Some form of debt restructuring (via maturity extension or interest rate reduction) may be likely over time.

Figure 26. Germany, France and Italy — Economic Forecasts, 2012-14F

		Germany			France			Italy		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	0.9%	0.8%	0.8%	0.0%	-0.2%	0.2%	-2.4%	-1.6%	-1.2%
Final Domestic Demand	YoY	0.3	0.9	1.3	0.3	0.0	0.2	-4.7	-2.4	-1.3
Private Consumption	YoY	0.6	1.4	1.2	0.0	0.1	0.1	-4.3	-2.4	-1.0
Fixed Investment	YoY	-2.0	-0.7	1.9	0.0	-1.1	0.4	-8.0	-4.0	-3.6
Exports	YoY	4.3	2.5	2.0	2.3	0.8	0.6	2.2	2.3	-2.7
Imports	YoY	2.2	3.0	3.1	-0.3	0.0	0.6	-7.8	-2.2	-3.1
CPI	YoY	2.0	1.4	2.1	2.0	1.0	1.5	3.3	1.9	1.2
Unemployment Rate	%	5.5	5.3	5.4	9.9	10.9	11.1	10.6	11.9	12.3
Current Account	€bn	185.4	181.4	151.4	-49.3	-35.3	-19.7	-10.0	-4.8	-2.7
	% of GDP	7.0	6.7	5.5	-2.4	-1.7	-0.9	-0.6	-0.3	-0.2
General Govt. Balance	€bn	2.2	-5.3	-6.7	-98.2	-73.6	-63.5	-47.3	-54.5	-54.4
	% of GDP	0.1	-0.2	-0.2	-4.8	-3.6	-3.1	-3.0	-3.5	-3.5
Primary Balance	% of GDP	2.4	1.9	1.6	-2.4	-1.7	-0.9	2.4	2.2	2.5
General Govt. Debt	% of GDP	82.4	81.8	80.9	90.2	95.0	96.7	127.1	133.2	139.3
Gross Trading Profits	YoY	-1.9	-3.2	-3.3	-0.9	0.0	1.0	NA	NA	NA

F Citi forecast. YoY Year-to-year growth rate. Note: The German annual figures are derived from quarterly Bundesbank data and adjusted for working days. Forecasts for GDP and its components are calendar adjusted. Sources: Deutsche Bundesbank, Statistisches Bundesamt, INSEE and Citi Research

Spain

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The economy remains weak, and probably shrank by about 0.5% QoQ in Q1 13, reflecting heavy fiscal drag, tight financing conditions, ongoing private deleveraging and the housing adjustment. While the 2012 fiscal deficit was slightly below our forecasts, we see it narrowing only marginally in 2013-14 (new fiscal targets to be presented on 26 April). Public debt is likely to exceed 100% of GDP by end-2014 in our view, possibly lifted by additional bank recap costs. We still expect Spain to enter a precautionary ESM programme this year and, eventually, some form of debt restructuring (maturity extensions/coupon reductions) probably will be needed.

Greece

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Despite another positive troika review — which still states that public debt is sustainable — progress in restoring fiscal sustainability remains limited, in our view. The fiscal numbers remain on track because of large declines in interest spending after last year's debt restructuring, but the recession continues and probably is deeper than the programme's baseline scenario (2013 GDP: -4.6%). In the near term, some negative spillover effects from Cyprus are likely to hit Greece's economy. Barring a major write-off of official loans to restore debt sustainability, we still believe there is a fairly high probability that Greece will leave the euro area.

Ireland

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Available data suggest that GDP rose slightly in Q1, perhaps by 0.1% QoQ or so, after zero growth in Q4. Exports have fallen 7.5% YoY in the last three months in nominal terms, the biggest drop since early 2010. Nevertheless, the IMF's latest update shows benefits of the recent promissory note deal, with debt service payments revised down by €1.2bn for 2013, similar amounts in 2014-16, and by €1.7bn for 2017. In the IMF's forecasts, these savings will be divided between debt repayment and extra spending. The agreement to extend maturities on official loans will provide further fiscal flexibility to absorb possible economic weakness.

Portugal

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Although the government has recently obtained an extra year to achieve its deficit targets and a 7-year maturity lengthening of bailout loans (effectively a form of OSI), the Constitution Court ruling against deficit-cutting measures for 0.8% of GDP will require additional fiscal tightening measures to be found for this year. This is likely to keep the economy very weak and probably also to weaken the support for the bailout programme and the government. With about half of the debt in official hands, we think some combination of further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may be eventually required to restore sustainability.

Figure 27. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2012-14F

		Spain			Greece			Ireland			Portugal		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.4%	-2.2%	-2.1%	-6.4%	-6.0%	-11.2%	0.9%	0.8%	2.0%	-3.2%	-3.7%	-2.8%
Final Domestic Demand	YoY	-4.0	-5.2	-3.6	-9.7	-7.0	-11.7	-1.2	0.3	-0.8	-6.9	-5.2	-2.8
Private Consumption	YoY	-2.2	-3.9	-1.1	-9.1	-6.7	-13.1	-0.9	1.4	-0.1	-5.6	-4.6	-1.1
Fixed Investment	YoY	-9.1	-7.3	-7.5	-19.0	-12.8	-21.1	1.1	-1.4	-3.2	-14.5	-9.0	-10.4
Exports	YoY	3.0	4.6	-1.6	-2.0	-1.5	-16.1	2.9	1.8	3.9	3.3	0.5	-3.2
Imports	YoY	-5.0	-5.5	-6.3	-9.3	-5.4	-17.5	0.3	1.2	1.9	-6.9	-3.2	-3.9
CPI	YoY	2.4	1.6	0.7	1.0	0.0	17.3	1.9	1.3	1.4	2.8	0.3	0.5
Unemployment Rate	%	25.0	27.0	28.1	24.1	28.7	34.1	14.7	13.9	13.7	15.7	17.9	19.9
Current Account	€bn	-11.3	25.7	38.8	-8.4	-5.9	4.1	7.3	7.7	9.2	-5.8	-0.5	2.6
	% of GDP	-1.1	2.5	3.8	-4.3	-3.3	2.2	4.4	4.6	5.3	-3.5	-0.3	1.7
General Govt. Balance	€bn	-111.5	-66.5	-60.4	-14.2	-10.8	-0.8	-12.0	-12.3	-7.8	-10.6	-9.1	-9.3
	% of GDP	-10.6	-6.4	-5.9	-7.3	-5.6	-1.1	-7.3	-7.4	-4.5	-6.4	-5.7	-6.1
Primary Balance	% of GDP	-7.6	-2.6	-1.6	-2.0	-1.3	-1.1	-3.4	-1.8	0.6	-2.0	-0.8	-0.7
General Govt. Debt	% of GDP	84.1	94.6	104.9	159.0	179.8	402.0	117.4	122.1	120.6	123.6	136.9	148.7

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

Netherlands

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We expect the Dutch economy to continue underperforming the euro area average in 2013, having to deal with very weak business confidence, sizeable fiscal tightening and deleveraging as the housing market experiences the fifth successive year of price declines (-18% since Aug-09 peak). We estimate that the euro area's fifth's largest economy is continuing to contract at an annualised rate close to 1% in 1Q 2103. We see clear risks of some further underperformance extending into 2014. Like many of its peers, the Netherlands is under pressure to deliver structural reforms, with the European Commission focusing on housing market related issues.

Belgium

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Belgium is preparing to abandon its 2.15% of GDP 2013 budget deficit target, working instead on a 2.5% target, but still targeting structural adjustments worth 1ppt of GDP. This still requires the government to identity €1.2bn (€1.5bn including social security) of savings on top of the €3.4bn of savings already pencilled in the 2013 budget. The press suggests that the government is considering a 1ppt hike in the VAT rate to 22%, a tax on air travel, and/or an increase in alcohol and tobacco excise duties.

Slovakia

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Weakness in industrial production points to milder GDP growth in 1Q13, though the larger foreign trade surplus is likely to keep GDP growth positive at 0.9%YoY in 1Q13. Manufacturing confidence improved substantially to levels last seen in mid-2012, but it is mainly driven by expectations, while order-books deteriorated further to 2009 levels. Central government budget dynamics have disappointed this year. Though the Ministry of Finance is aware of lower tax revenues this year, it does not seem to be in a hurry to introduce the austerity measures

Slovenia

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We are cutting our 2013 growth forecast by 0.1% and cutting our 2014 forecast by 0.2%, reflecting a slightly worse outlook on foreign demand for 2013 and tighter fiscal policy in 2014. By contrast, some monthly figures, including confidence indicators, suggest a milder GDP contraction compared to the end of 2012. We expect markets will focus on three issues, which will be key for government to regain creditworthiness. i) the privatisation proposals for both banking and non-banking sectors (by end of April); ii) the Stability programme that should tackle the EC´s assessment of excessive microeconomic imbalances (9 May); iii) implementation of the Bad Bank (in June).

Figure 28. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2012-2014F

		Netherlands			Belgium			Slovakia			Slovenia		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.0%	-1.0%	0.0%	-0.2%	-0.1%	0.3%	2.0%	0.7%	1.6%	-2.2%	-1.8%	-0.5%
Final Domestic Demand	YoY	-1.6	-1.6	-0.7	-0.7	0.0	0.6	-1.4	-0.4	1.2	-3.8	-3.8	-0.6
Public Consumption	YoY	0.0	-0.9	-0.7	0.1	0.0	0.3	-0.6	-1.4	0.0	-1.6	-2.6	-2.5
Private Consumption	YoY	-1.4	-1.8	-0.4	-0.6	0.3	0.5	-0.6	0.1	0.5	-2.8	-3.8	-0.5
Investment (Ex Stocks)	YoY	-4.6	-2.6	-1.2	-0.5	-0.6	1.4	-3.7	-1.1	3.5	-9.1	-5.7	1.4
Exports	YoY	3.3	1.8	1.4	0.4	0.0	1.1	8.6	3.3	2.9	1.3	0.7	0.6
Imports	YoY	3.1	1.6	0.7	-0.1	-0.3	1.4	2.8	1.3	2.4	-4.3	-1.7	1.1
CPI (Average)	YoY	2.8	2.8	1.8	2.8	1.3	2.0	3.6	2.2	2.5	2.6	1.9	2.2
Unemployment Rate	%	6.4	7.9	8.3	7.6	8.3	8.2	13.6	14.6	15.1	8.9	9.4	10.3
Current Account	% of GDP	9.9	9.5	9.0	-1.4	-1.3	-1.1	2.3	3.7	3.2	2.3	2.8	3.6
General Govt Balance	% of GDP	-4.2	-3.8	-3.2	-2.9	-2.5	-2.0	-4.4	-3.2	-2.9	-3.7	-3.5	-3.0
Primary Balance	% of GDP	-2.4	-2.0	-1.2	-0.6	0.0	0.8	-2.9	-1.7	-1.4	-1.6	-1.3	-0.7
General Govt Debt	% of GDP	71.4	75.5	78.1	110.0	115.7	115.4	51.4	52.8	53.7	54.1	62.0	68.6

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

UK

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Our economic forecasts are little changed from last month, and we continue to look for growth of less than 1% in both this year and 2014, with persistently above-target inflation. Available data so far suggest that the economy remained sluggish in early 2013, with a net gain in retail sales but declines in construction output, exports and industrial production. At this stage, we expect that Q1 GDP (released April 25) was roughly flat, after the 0.3% QoQ drop in Q4-12. But, the ONS will have to make assumptions for the effects on March activity of the extraordinarily cold weather seen in that month, and this factor could well distort the data and produce a stronger (or weaker) figure. The economy as a whole has considerable spare capacity and underlying inflation pressures are weak. However, CPI inflation is likely to remain well above the 2% target and indeed will probably exceed 3% YoY around midyear, because of ongoing increases in prices for demand-insensitive items — notably utilities, petrol, food, tobacco, and tuition fees — as well as some boost to import prices from the lower pound.

The Budget left a phased multi-year fiscal consolidation in place, but also gave the MPC a more flexible inflation target and a wider toolkit of monetary policy instruments (including credit easing, liquidity policy, official rates other than Bank Rate and decisions over whether to buy private sector assets) with which to hit that remit. Previously, the MPC could only use QE and Bank Rate to fulfill their remit, and decisions over whether to use those other policy tools were reserved for the BoE hierarchy with no clear criteria to determine whether they should be used. We expect that these changes will produce a more activist MPC, and expect loosening via more credit easing, QE and forward guidance in coming months, with the timing depending on economic data and possibly also the trigger provided by Carney's arrival as Governor from midyear.

Figure 29. United Kingdom — Economic Forecasts, 2012-2014F

					2012	2013F				2014F		
		2012	2013F	2014F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	0.3%	0.4%	0.7%	0.2%	0.2%	0.9%	0.0%	0.4%	0.5%	0.4%	0.8%
	SAAR				-1.5	0.1	1.3	0.0	0.2	0.5	1.0	1.8
Domestic Demand	YoY	1.4	0.1	0.7	1.6	0.6	0.3	-0.3	-0.1	0.3	0.4	0.8
(Incl. Inventories)	SAAR				-0.4	-1.2	0.5	-0.1	0.3	0.4	1.1	1.5
Consumption	YoY	1.2	1.2	1.3	1.6	1.4	1.3	1.2	1.0	1.0	1.0	1.4
	SAAR				1.5	0.8	1.7	1.0	0.4	0.8	1.9	2.3
Investment	YoY	1.5	-3.0	0.1	1.5	-0.4	-3.3	-4.3	-3.9	-2.5	-0.7	1.5
	SAAR				-0.8	-5.4	-5.2	-5.5	0.5	0.5	1.9	3.1
Exports	YoY	-0.2	-0.3	4.5	-2.5	-2.7	0.2	-0.7	1.9	4.8	3.9	4.3
	SAAR				-6.4	-6.8	7.9	3.4	3.7	4.5	3.9	5.3
Imports	YoY	2.7	-1.4	4.1	1.2	-2.0	-2.1	-1.7	0.3	4.0	3.9	4.1
	SAAR				-3.8	-10.2	4.9	3.2	4.0	4.0	4.3	4.2
Unemployment Rate	%	7.9	7.8	7.7	7.8	7.9	7.9	7.9	7.7	7.7	7.8	7.8
CPI Inflation	YoY	2.8	2.9	2.7	2.7	2.7	2.9	3.0	2.9	2.8	2.7	2.7
Merch. Trade	£bn	-106.4	-100.9	-104.5								
	% of GDP	-6.9	-6.4	-6.4								
Current Account	£bn	-57.7	-41.4	-46.5								
	% of GDP	-3.7	-2.6	-2.9								
PSNB	£bn FY	-87.1	-112.9	-108.9								
	% of GDP	-5.6	-7.1	-6.6								
General Govt. Balance	% of GDP	-6.3	-7.8	-7.3								
Government Primary Balance		-2.6	-3.9	-3.4								
Public Debt	% of GDP	89.5	94.5	100.7								
Gross Nonoil Trading Profits	YoY	3.6	8.9	3.4								

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

Switzerland

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Our Swiss economic forecasts are little changed from last month, and we continue to expect modest growth coupled with mild deflation in 2013 and 2014. The Kof indicator is at the lowest since May-12, but this survey (like the PMI) is not yet weak enough to signal recession. YoY CPI inflation has been negative each month since Oct-11 and probably will stay negative (thanks to the strong CHF) for the next two years or so. Against this backdrop, the SNB is likely to maintain the CHF1.20/€ cap.

Sweden

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The improvement in sentiment indicators suggest that the worst is behind us. Still, economic recovery is likely to be weak in a historical perspective; exports are likely to stay weak, household deleveraging risks are increasing and ongoing fiscal erosion limits the size of fiscal easing. With well-below trend GDP growth and rising unemployment, the government announced additional reform measures in the spring budget of SEK 3bn for 2013-14, and sees scope for additional unfinanced initiatives next year. With total stimulus of around SEK 25bn (0.7% of GDP) this year, fiscal policy should continue to support economic growth ahead. The same goes for monetary policy, where the outlook is a fairly long period of ultra-low rates.

Denmark

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Recent data suggest that the Danish economy again is expanding, following the marked contraction in 4Q. Although the economy gradually should return to the growth track this year, the recovery will likely be weak as households continue to deleverage on the back of the housing bust. The DNB did not intervene in Feb or Mar, suggesting that 1) EUR/DKK is trading around satisfactory levels and that 2) the next independent interest rate move is unlikely to happen in the very short term. With the currency only marginally stronger than the central parity and a very low lending rate, we do not expect DNB to fully shadow near-term ECB action.

Norway

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The cushion of high oil receipts and recovering private spending in early-2013 should ensure continued Norwegian outperformance versus most of Europe. Although momentum has peaked, mainland GDP should settle at a trend-like pace ahead. Underlying inflation remains very low and the ongoing undershoot vs. Norges Bank's forecast combined with indications that wage growth will be more moderate than anticipated this year have strengthened the arguments for a near-term rate cut (March rate path saw a 50/50 chance for a 25bp cut in May). However, with the real economy in no need for additional monetary stimulus, the May decision seems to be a close call.

Figure 30. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2012-2014F

		Switzerland			Sweden			Denmark			Norway		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	1.0%	1.1%	1.1%	1.2%	1.0%	1.9%	-0.5%	0.4%	1.7%	3.3%	2.6%	2.7%
Final Domestic Demand	YoY	1.7	1.8	1.3	2.0	1.2	1.5	0.8	1.2	1.6	2.9	3.0	3.0
Public Consumption	YoY	0.7	2.5	1.4	1.2	0.9	0.8	0.2	1.1	0.6	1.9	2.1	2.3
Private Consumption	YoY	2.5	2.0	1.7	1.7	1.7	1.8	0.6	0.8	1.7	3.0	3.0	3.1
Investment (Ex Stocks)	YoY	0.1	0.7	0.1	4.1	0.1	1.6	2.2	2.4	2.8	4.1	4.6	3.9
Exports	YoY	1.1	3.7	1.8	1.3	0.6	3.2	0.9	0.8	3.4	4.2	2.2	2.4
Imports	YoY	2.3	4.2	2.6	0.5	0.3	1.9	2.6	1.4	3.3	5.1	3.5	2.1
CPI (Average)	YoY	-0.7	-0.3	-0.4	0.9	0.3	1.3	2.4	1.5	1.7	0.7	1.6	1.7
Unemployment Rate	%	2.6	2.1	2.3	8.0	8.2	8.2	7.5	7.8	7.6	3.2	3.3	3.4
Current Account	% of GDP	12.8	12.8	12.0	7.2	7.3	7.1	5.6	5.0	4.3	14.2	14.5	14.9
General Govt Balance	% of GDP	0.5	0.4	0.4	-0.5	-1.2	-1.5	-4.1	-2.0	-1.2	13.9	13.3	13.0
General Govt Debt	% of GDP	46.7	45.5	44.0	36.6	37.3	37.6	45.6	46.6	46.2	NA	NA	NA

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

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Canada

The Canadian economy likely will continue to experience lacklustre growth in 1H 13 amid ongoing challenges from weak external demand, domestic slack and business caution. We expect inflation will be subdued near-term and total CPI is not forecast to converge to the BoC's 2% target until 2H 14. But firmer US growth, as fiscal drag dissipates and housing swells, suggests faster Canadian output in 2H 13 and beyond.

Canada is expected to continue to undergo a rotation in demand. Canadian consumer spending probably will ebb as the ongoing correction in the housing market saps desire for household-related goods, and as wage growth remains moderate. Residential construction is set to weigh heavily on the economy as housing starts retreat to more sustainable levels. Government consolidation will persist. Business investment should reinvigorate as firms work to increase their global competitiveness. Elevated commodity prices and renewed demand for energy should enliven exports growth. However, ongoing concern about global growth and competitiveness pressures related to low productivity and CAD strength may retard progress on these fronts. Risks to the outlook are two-sided, but roughly in balance.

Upside risks include (1) stronger US demand; (2) faster Canadian exports growth amid improved competitiveness or if global growth is more robust than projected; and (3) reinvigoration of the Canadian housing market. Downside risks include (1) EU policy challenges and a failure to contain the crisis; (2) delay of the Canadian capex and exports revival caused by weaker external demand, less supportive commodity prices or geopolitical risks in Asia and MENA; and (3) domestic consumer retrenchment linked to debt and/or disorderly unwind in housing. The BoC probably will keep interest rates fixed until 1Q 2015, reflecting benign inflation and material reduction of imbalances related to elevated household debt levels and home prices. But policymakers should retain the slightly hawkish bias.

Figure 31. Canada — Economic Forecast, 2012-2014F

					2012	2013F				2014F		
		2012	2013F	2014F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	1.8%	1.5%	2.5%	1.1%	1.3%	1.1%	1.5%	2.1%	2.3%	2.6%	2.7%
	SAAR				0.6	2.0	1.0	2.5	2.9	2.7	2.5	2.6
Final Domestic Demand	YoY	1.9	1.80	2.3	1.9	1.7	1.6	1.9	2.0	2.2	2.4	2.3
	SAAR				2.6	1.4	1.4	2.4	2.7	2.2	2.1	2.1
Private Consumption	YoY	1.9	2.1	2.4	2.0	1.9	2.2	2.2	2.1	2.3	2.4	2.4
	SAAR				2.7	1.6	1.9	2.5	2.5	2.5	2.3	2.2
Government Spending	YoY	-0.6	0.9	1.0	0.5	0.9	0.6	1.3	0.9	1.0	1.0	1.0
	SAAR				2.4	0.7	1.0	1.0	1.0	1.0	1.0	1.0
Private Fixed Investment	YoY	5.3	2.0	3.5	3.5	2.0	0.9	2.1	2.8	3.2	3.9	3.7
	SAAR				2.4	1.5	0.6	3.9	5.4	3.1	3.1	3.4
Exports	YoY	1.6	1.4	6.0	-2.1	-0.7	-0.5	2.7	3.9	5.0	6.1	6.4
	SAAR				1.2	2.5	2.0	5.3	6.0	6.7	6.4	6.6
Imports	YoY	2.9	2.1	4.7	2.1	1.1	1.6	2.1	3.4	4.4	4.5	4.7
	SAAR				-1.0	1.0	4.5	4.0	4.0	5.0	5.0	5.0
CPI	YoY	1.5	1.1	1.7	0.9	1.0	0.9	1.2	1.2	1.3	1.8	1.8
Core CPI	YoY	1.7	1.6	2.0	1.2	1.4	1.5	1.8	2.0	2.0	2.0	2.0
Unemployment Rate	%	7.3	7.2	6.8	7.2	7.1	7.3	7.3	7.1	6.8	7.0	6.9
Current Account Balance	C$bn	-67.0	-56.7	-54.1	-69.0	-59.2	-62.1	-53.2	-52.1	-56.3	-55.6	-52.6
	% of GDP	-3.7	-3.0	-2.8	-3.8	-3.2	-3.3	-2.8	-2.7	-2.9	-2.9	-2.7
Net Exports (Pct. Contrib.)		-0.5	-0.3	0.3	0.7	0.4	-0.9	0.3	0.5	0.4	0.3	0.4
Inventories (Pct. Contrib.)		0.2	0.0	-0.1	-2.6	0.5	0.4	-0.2	-0.3	0.0	0.0	0.0
Budget Balance (Fiscal Year)	% of GDP	-1.4	-1.0	-0.3								
Federal Budget Debt	% of GDP	33.3	33.1	32.3								
General Govt. Debt	% of GDP	86.0	85.8	85.1								

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

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Australia

We have slightly raised our economic growth forecasts for 2013 from 2.4% to 2.7% and for 2014 from 3.0% to 3.1%.The forecasts incorporate slightly greater momentum in recognition of signs that monetary stimulus is getting more traction, that the global growth outlook has stabilised and that monetary policies in the major economies will remain stimulatory for some time yet. That said, we do not expect growth to return to trend until next year and the transition to more evenly-balanced growth could be quite volatile. In particular, businesses still report difficult operating conditions due to consumer caution and the impact of the high AUD. Indeed, the recent QE announcement by the Bank of Japan is expected to add to upward pressures on the AUD by increasing demand for Australian securities, particularly government bonds. Consequently, we believe the RBA will maintain its easing bias and could still cut interest rates if inflation surprises to the downside of expectations.

New Zealand

Forward indicators of business activity and spending have started to improve. Data also shows stronger secondary housing market activity in Auckland. The RBNZ has noted excess demand for dwellings and persistent high debt levels for some households, reminding people of the fallout from the previous house price boom in 2007. Warnings around regulating housing market activity through macro prudential tools and the option of a monetary policy response if there is a threat to inflation have since been mentioned. The likelihood of a near-term rate increase is low in our view. Drought conditions have swept over much of the country, nullifying the gain in agricultural commodity prices. The NZD has strengthened further, becoming more of a headwind to exports since the BoJ expanded its QE program. Most importantly, New Zealand inflation should remain low and stable, affording a continuation of the current policy stance for 2013.

Figure 32. Australia and New Zealand — Economic Forecast, 2012-2014F

	Australia			New Zealand		
	2012	2013F	2014F	2012	2013F	2014F
Real GDP[a]	3.6%	2.7%	3.1%	2.2%	2.6%	2.8%
Real GDP (4Q versus 4Q)	3.1	2.8	3.1	1.6	3.5	2.2
Real Final Domestic Demand	4.6	2.0	3.0	2.4	3.9	3.2
Consumption	3.2	2.6	3.5	1.8	3.2	2.5
Govt. Current & Capital Spending[b]	2.4	-2.0	2.7	0.5	1.0	0.9
Housing Investment	-4.5	3.8	6.1	13.4	28.5	8.9
Business Investment[c]	16.1	4.9	0.7	4.4	4.2	6.1
Exports of Goods & Services	6.3	6.9	8.4	2.1	1.8	1.0
Imports of Goods & Services	6.8	5.7	7.5	2.6	3.7	4.4
CPI	1.8	2.8	2.5	1.1	1.2	2.3
CPI (4Q versus 4Q)	2.2	2.8	2.6	0.9	2.0	2.2
Unemployment	5.2	5.4	5.7	6.9	6.1	5.1
Merch. Trade, BOP (Local Currency, bn)	-15.9	-21.4	-35.2	1.1	1.5	-0.5
Current Account, (Local Currency, bn)	-54.4	-58.2	-76.4	-10.3	-11.9	-15.3
Percent of GDP	-3.7	-3.7	-4.7	-5.0	-5.5	-6.8
Budget Balance[d] (Local Currency, bn)	-43.7	-12.5	0.5	-10.9	-6.7	-2.1
Percent of GDP	-3.0	-0.8	0.0	-5.3	-3.1	-0.9
General Govt. Debt (% of GDP)[e]	29.0	29.8	28.4	38.8	38.1	41.3
Gross Trading Profits[f]	-4.6	2.0	5.7	NA	NA	NA

BOP Balance of payments basis. CPI Consumer Price Index. F Citi forecast. NA Not available. [a]Averaged-based GDP in Australia and New Zealand. [b] In New Zealand excludes capital spending. [c] In New Zealand includes government capital spending. [d] Fiscal year ending June. Australia's underlying cash balance. [e]Australia and New Zealand Budget definition and forecasts. [f]Company gross operating surplus. Sources: ABS, StatsNZ, NZIER and Citi Research

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Growth in 1Q disappointed, due mainly to the consumption drag. FAI grew by 20.9% YoY, with property investment rebounding briskly. Retail sales growth decelerated to 12.4% YoY, as the government's frugality campaign started to hit government-related consumption. Exports outperformed expectations, and external demand has contributed positively to growth. IP growth fell to 9.5% YoY, with weak demand constraining the pace of production and restocking. GDP growth decelerated to 7.7% YoY in 1Q, marking a setback of the cyclical rebound. The weak recovery has helped to keep inflation at 2.4% YoY, only slightly higher than 2.1%YoY recorded in 4Q12. PPI deflation continued, easing inflationary pressure down the road.

The shift of monetary policy from an easing bias to a neutral position is likely to be gradual. Monetary policy remained accommodative in 1Q, with on- and off-balance-sheet credit growth beating expectations. The rapid money and credit growth has been largely driven by increased FX inflows amid partial sterilisation by PBOC. With sluggish growth and inflation not posing an immediate threat, we do not expect the PBOC will quickly bring down money and credit growth. Broad money growth may stay above the official target of 13%, and new RMB lending and total social financing may exceed 9tn and 18.5tn, respectively. The authorities may allow a gradual appreciation of the currency to the extent it reflects fundamental forces (such as the trade surplus), and USDCNY spot may touch 6.10 in 6-12 months.

We are downgrading our growth forecast slightly and shift the quarterly pattern. Reflecting a weak start, we have changed 2013 growth forecast from 7.8% to 7.7%. The lagged effect of relatively loose monetary and credit policies should help sustain investment in the next six months, and growth is projected to accelerate slightly in 2Q and 3Q to close to 8%. Financing conditions may become tighter for the rest of the year with more regulation of off-balance-sheet credits and local government debt weighing on growth in late 2013 and early 2014. With growth close to potential, average inflation may not exceed 3% in 2013, comfortably below the official target of 3.5%.

Figure 33. China — Economic Forecasts, 2012-2014F

					2012	2013F				2014F		
		2012	2013F	2014F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	7.8%	7.7%	7.3%	7.9%	7.7%	7.8%	7.9%	7.5%	7.5%	7.3%	7.1%
Real Final Domestic Demand	YoY	8.3	7.4	7.5								
Consumption	YoY	8.2	7.3	7.8								
Fixed Capital Formation	YoY	8.4	7.6	7.1								
Industrial Production	YoY	10.0	9.6	9.1	10.0	9.5	9.7	9.9	9.4	9.3	9.1	8.9
Exports	YoY	7.9	9.7	5.9	9.4	18.4	6.0	7.0	9.0	2.0	5.0	7.0
Imports	YoY	4.3	9.6	7.2	2.9	8.4	10.0	12.0	8.0	8.0	7.0	6.0
Merchandise Trade Balance	$bn	231	254	243	83	43	54	62	95	16	47	71
FX Reserves	$bn	3,312	3,678	3,861	3,312	3,440	3,494	3,556	3,678	3,674	3,706	3,762
Current Account	% of GDP	2.3	2.2	2.0								
Fiscal Balance	% of GDP	-2.0	-2.0	-2.0								
General Govt. Debt*	% of GDP	43.3	42.3	40.8								
Urban Unemployment Rate	%	4.1	4.1	4.2	4.1	4.1	4.1	4.1	4.1	4.2	4.2	4.2
CPI	YoY	2.6	2.9	3.5	2.1	2.4	2.7	3.0	3.5	3.4	3.3	3.2
Exchange Rate (end period)	CNY/$	6.23	6.10	6.02	6.23	6.21	6.17	6.14	6.10	6.08	6.06	6.04
1-Yr Deposit Rate (end period)	%	3.00	3.25	3.75	3.00	3.00	3.00	3.00	3.25	3.50	3.50	3.50

Note: F Citi forecast. E Citi estimate. YoY Year-to-year percent change. SAAR Seasonally adjusted annual rate. * General Govt. Debt includes the debt of central, local govt and Ministry of Railway. Sources: Haver Analytics and Citi Research

India

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While there have been no negative surprises on the output side, high frequency data as reflected in factory output, infrastructure, PMI and autos remain weak. However, the government's policy initiatives seen during the last few months have been encouraging. Assuming continued incremental policy momentum, we maintain our view of a shallow recovery in GDP growth to 5.7% in FY14 v/s 5.0% in FY13.

As regards inflation, in contrast to trends in the last few months, headline combined CPI has trended lower with the March print at 10.4% — ~50bps lower than the 10.9% reading last month. The WPI has also been coming off thanks to lower commodity prices (tradables account for 57% of the WPI). Going forward, we expect inflation measured by both the CPI and WPI to edge lower in coming months and likely average 8.5% and 6.5%, respectively, this year, but underlying structural issues and lack of supply side response, are likely to keep both the CPI and WPI, well above the RBI's comfort level of 4%.

Despite elevated inflation, we maintain our view of a further 25bps easing in rates in 2013, with a 25bps cut expected in the RBI's annual policy on May 3. Factors supporting monetary easing include (1) quarterly GDP readings now in the 4% handle, (2) government adhering to its FY13 fiscal targets, and (3) substantial easing in core inflation which is now at a three-year low and below the RBI's comfort zone.

Worries on India's current account deficit (CAD) continue unabated with the latest quarterly print (Oct-Dec) at 6.7% of GDP. Going forward, taking into account (1) A pick up in exports (2) Stable/lower oil and gold imports due to lower prices and demand and (3) A moderation in invisibles due to higher investment income outflows, we expect the CAD to come in at US$98.6bn (5.3% of GDP) in FY13 and US$100bn (4.9% of GDP) in FY14.

We reiterate our view that rising deficits and consequently the minimum external funding requirements to the tune of US$100bn have resulted in the CAD being the key concern for policy makers and investors. Policy makers are aware of India's rising vulnerability if the global risk environment changes and are likely to continue to take measures to attract dollar inflows. However, the elevated CAD will likely keep the unit in the Rs54-Rs56 range.

Figure 34. India — Economic Forecasts, FY2012/13-2014/15F

		FY 12/13F	FY 13/14F	FY 14/15F
Real GDP	YoY	5.0%	5.7%	6.4%
Final Domestic Demand	YoY	3.6	5.2	6.2
Private Consumption	YoY	4.1	5.5	6.7
Fixed Investment	YoY	2.5	4.0	5.5
Exports	YoY	5.1	10.0	11.0
Imports	YoY	5.7	12.0	9.5
Wholesale Price Index*	YoY	7.3	6.5	6.0
Consumer Price Index	YoY	10.2	8.5	7.5
Current Account	US$ bn	-99	-100	-104
	% of GDP	-5.3	-4.9	-4.4
Consolidated Fiscal Balance	% of GDP	-7.3	-7.0	-6.7
Centre Fiscal Balance	% of GDP	-5.2	-4.8	-4.6
US Dollar Exchange Rate	Average	55.0	56.4	55.7

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

Korea

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Exports in 1Q13 rebounded mildly by growing 0.5%YoY from -0.4% in 4Q12, despite concerns about the weakening JPY and lukewarm global demand. Meanwhile, domestic demand remains sluggish (facilities investment in particular), leading the government to prepare a fiscal stimulus of KRW19.3trn to stimulate the economy. The government also implemented stimulus measures for the housing market by providing a tax exemption on capital gain and abolishing DTI rules for first-time home buyers. Meanwhile, geopolitical risk (which has escalated since mid-Feb after North Korea (NK)'s 3rd nuclear bomb test) weighed on investment sentiment, leading the Kospi and KRW to underperform. We think military tensions could last longer than previously expected, because NK is likely to continue military provocation to South Korea and the US, such as additional missile launches and nuclear bomb tests. Contrary to our expectations, the BoK left the policy rate unchanged this month with a hawkish view on inflation and a rather optimistic view on economic growth, especially for 2H. The decision is meaningful for the policy rate forecast as it was made under sizeable political pressures. We now expect no rate cut for this year, whereas last month we expected a cut in Q2.

Indonesia

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Given rising spending on subsidies, the government may increase the deficit target if there is a mid-year revision of the government budget. We think the realised deficit can reach about 2.1% of GDP this year (vs. 1.7% plan). This can be partially financed by the cumulative savings balance of 0.8% GDP, although a modest amount of additional bond issuance is possible. Regarding the upcoming policy on subsidies, the latest idea is to ration the subsidised fuel for private cars, and sell a semi-subsidised fuel at 44% higher price. If this goes through, we think YE13 inflation can rise to 6.0 - 6.5%, depending on coverage, vs. our baseline 5.5% YoY. Bi has started raising long tenor money market rates; we expect only a single 25bp rate hike from BI by end 2Q to further manage expectations. Following the $8bn decline in foreign reserves from Dec-12 to Mar-13, the 1Q13 BOP data may also see a significant deficit. There may have been pent-up income repatriations resulting in lower FDI. We expect the capital account to improve in 2Q and anchor the IDR, but pressure can re-emerge in 2H (our 6-12M forecast: 9,950/$), given the slow improvement in trade.

Figure 35. Korea and Indonesia — Economic Forecasts, 2012-2014F

		Korea			Indonesia		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	2.0%	3.2%	4.1%	6.2%	6.2%	6.3%
Final Domestic Demand	YoY	1.1	2.6	3.5	6.2	6.3	6.9
Private Consumption	YoY	1.7	2.2	3.2	5.3	5.2	5.1
Fixed Investment	YoY	-1.7	2.2	4.6	9.8	7.7	9.4
Exports	YoY	4.2	4.3	8.3	2.0	5.0	9.1
Imports	YoY	2.5	3.7	8.2	6.6	5.1	10.6
Consumer Price Index	YoY	2.2	2.3	3.0	4.3	5.6	4.1
Unemployment Rate	%	3.2	3.3	3.2	6.1	5.9	5.8
Current Account	US$ bn	43.1	32.3	26.6	-24.2	-20.5	-19.1
	% of GDP	3.8	2.7	2.0	-2.8	-2.1	-1.8
Fiscal Balance	% of GDP	1.4	0.8	1.4	-1.8	-2.1	-1.4
US Dollar Exchange Rate	Average	1127	1137	1061	9361	9848	9813

Sources: Haver Analytics and Citi Research

Hong Kong

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HK is on a slow phase of economic recovery in 1Q, but we see momentum building. Export data for the first two months (0.3% YoY growth) highlights that the global trade recovery is soft thus far and plagued with uncertainty. Stronger retail sales for the first two months bring some consolation, however. CPI inflation is likely to climb this year, reflecting delayed pass-through of higher private rents, increases in utilities/transportation charges and the higher minimum wage. HK is on high alert over the new strain of bird flu which appears to be spreading in Mainland China. So far, no infected case has been found in HK, but food prices still are likely to be affected near term. The HKD has moved away from the strong end of trading band, despite CNY pushing to record lows, on USD strength and choppy equity markets. Political debate over the process of 2017 Chief Executive Election is escalating.

Singapore

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1Q GDP Advance Estimates show the economy unexpectedly contracted sequentially (-0.6%YoY, -1.4%QoQ SAAR) on biomed. The output gap has now turned temporarily negative, but this should close as (using the MAS's language) the economy sees a "*gradual improvement for the rest of the year*" — which, amidst a "*full employment*" labour market, would result in a "*slightly stronger pace of cost pass through to prices of consumer services*" and hence core inflation going forward. Thus, while MAS lowered headline and core inflation forecasts by 0.5%-pts to 3-4% (Citi: 3.5%) and 1.5-2.5% (Citi: 2.1%) respectively, the slope, width and centre of the SGD NEER band were kept unchanged as MAS prioritised the expected pick up and structural REER appreciation over the historical cyclical drag.

Taiwan

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March trade data confirm that a gradual recovery is underway, and we expect export momentum will benefit from new tech product innovation in 3Q, while the outlook for non-tech exports hinges on Chinese growth. Consumer confidence continues to improve for the third month which, together with more material improvement in wages expected later in the year, could pave way for consumption recovery. The NTD has depreciated more rapidly after the latest BOJ move and Korean risks, and we have adjusted our 0-3M FX forecast to TWD30.3/USD. The CBC kept policy rates on hold in its March meeting as expected, and we believe our forecast for the re-discount rate to stay at 1.875% for all of 2013 is appropriate given the expected gradual economic recovery and softer inflation pressures. Taiwan's 10Y government bond yields followed the US counterparts, and have come off recently reflecting lesser worries of imminent QE3 exit.

Figure 36. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2012-2014F

		Hong Kong			Singapore			Taiwan		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	1.4%	3.0%	3.5%	1.3%	2.0%	4.0%	1.3%	3.5%	4.0%
Final Domestic Demand	YoY	5.2	2.4	2.0	2.9	2.2	3.3	0.1	2.0	3.3
Private Consumption	YoY	4.0	2.1	2.1	2.2	2.6	3.2	1.5	1.9	2.7
Fixed Investment	YoY	9.1	3.0	2.0	6.6	2.0	3.6	-4.4	3.5	6.8
Exports	YoY	1.3	1.9	4.3	0.3	2.3	3.3	0.1	4.3	4.3
Imports	YoY	2.5	1.9	3.7	3.2	2.5	2.9	-1.9	2.7	3.0
CPI	YoY	4.1	4.3	3.6	4.6	3.5	2.8	1.9	1.7	1.9
Unemployment Rate	%	3.3	3.3	3.2	2.0	1.9	1.8	4.2	4.1	4.0
Current Account	US$ bn	2.9	15.9	18.7	51.5	41.1	43.4	49.6	42.2	43.8
	% of GDP	1.1	5.6	6.2	18.6	14.0	13.5	10.5	8.4	8.0
Fiscal Balance	% of GDP	3.2	1.8	1.0	1.1	0.7	0.5	-1.6	-1.2	-1.3
US Dollar Exchange Rate	Average	7.76	7.76	7.76	1.25	1.24	1.21	29.57	30.22	29.74

Sources: Haver Analytics and Citi Research

Russia

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With Thanks To
Adrian Thomas

GDP growth decelerated to 2.1%YoY in 4Q12 from 4.5% in 1H12. In February, retail sales slowed to 2.5%YoY from 6% in 2012 as the effects of pre-election spending tapered off while industrial production remained in negative YoY territory and investment stagnated. Headline inflation remained above the CBR target of a 5-6% range for the sixth month in a row, reaching 7%YoY at the end of February. Despite slowing growth, we do not expect the CBR to cut repo rates before 2H2013 when inflation probably will start to come off. We forecast inflation to remain at 6.5- 7% YoY in 2Q, slowing to about 6% in December owing to weak economic growth. Since its hike in September, the CBR adjusted its policy instruments on the margin, abstaining from changes in its policy stance. Net capital outflows slowed in 2012 owing to larger private sector borrowing from abroad. Euroclear introduction for OFZ in February and the seasonally strong current account should keep the ruble below 35/BASK. However, the CBR is likely to continue intervening asymmetrically on the FX market in order to provide domestic ruble liquidity.

Turkey

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The recent hard data (such as February industrial production) suggest that a recovery is underway. However, given the sharp decline in December, it remains to be seen whether the recent relatively favourable growth indicators represent a robust recovery or just a temporary upward correction. Against this backdrop and the disappointing 4Q GDP reading, we believe that rising concerns over the strength of recovery played an important role in the CBT's recent U-turn. At the March MPC meeting, the CBT signaled a tighter stance on the back of a deceleration in capital inflows and renewed euro zone worries. Following Governor Basci's speech on 3 April, however, a rate cut is now widely perceived to be on the agenda. Standing at 199.95, the release of the REER index for March has further strengthened expectations of a rate cut, as the REER is likely to exceed the critical 120 level in April, which is supposed to trigger a rate cut under the CBT's unorthodox approach. Against this backdrop, we believe that the CBT will maintain its dovish bias and carry out additional narrowing of the corridor, while also lowering the policy rate. In our view, the likely trajectory of the monetary policy is not lira-friendly and could undermine sentiment in the bond market if the currency depreciation gets out of hand as it did in 2011.

Figure 37. Russia and Turkey — Economic Forecast, 2012-14F

		Russia			Turkey		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	3.4%	3.1%	3.6%	2.2%	4.0%	4.3%
Final Domestic Demand	YoY	5.2	4.3	4.7	-0.5	3.4	4.8
Private Consumption	YoY	6.7	5.0	5.0	-0.7	3.2	4.3
Fixed Investment	YoY	6.0	4.6	6.5	-2.5	4.3	6.7
Exports	YoY	1.4	1.1	1.7	17.2	4.5	4.4
Imports	YoY	9.5	4.5	4.5	0.0	2.5	6.1
CPI	YoY	5.1	6.6	5.4	8.9	7.4	7.3
Unemployment Rate	%	5.7	6.5	7.0	9.2	9.5	9.5
Current Account	US$ bn	79.0	60.2	20.6	-46.9	-60.8	-66.1
	% of GDP	4.0	2.8	0.9	-6.0	-7.1	-7.2
Fiscal Balance	% of GDP	-0.7	-2.0	-4.1	-2.0	-2.2	-2.7
US Dollar Exchange Rate	Average	31.1	32.1	33.8	1.80	1.85	1.93

Sources: Haver Analytics and Citi Research

Hungary

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We have become a little more constructive about the outlook, given new policy tools revealed by the NBH aiming to support SME lending and reduce Hungary's external debt and fiscal sterilisation costs. The impact of cheap SME funding to economic growth may be marginally positive. But, more importantly, lower funding costs and a stronger currency as a result of reduced monetary policy uncertainty may support public and private balance sheets, helping to limit the decline in domestic demand. The NBH's plans to reduce sterilisation costs may ease the risk that the corporate sector is hit by significant extra fiscal tightening in 2014. Therefore, we have raised our GDP growth forecasts to 0.2% for 2013 and to 1.3% for 2014. Given the reduced domestic risks and prospect for further global monetary stimulus, market conditions will likely allow the MPC to carry on with gradual 25bp rate cuts and lower the base rate to 4% by 3Q13. Given Hungary's poor growth prospects, risks of further NBH stimulus remain on the cards ahead of the spring 2014 elections, and hence monetary policy communication may continue to dominate the outlook.

Poland

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Low growth has led to a shortfall in tax revenues, contributing to a sharp widening of the central budget deficit in the first months of the year. Although the budget will benefit from the higher-than-planned central bank profits and the Finance Ministry is likely to keep spending under control, we believe the risk of a budget revision by around PLN 10bn in 2H 2013 is high. In the coming months, the government is also likely to present a plan of changes in the pension system. Although several options seem to be on the table, we think the most likely final outcome might include a transfer of assets of people approaching retirement age from private pension schemes to the Social Security Institution (ZUS). This would help reduce public debt by a relatively small amount (probably less than 1% of GDP) in the first year. We believe the government might also freeze or reduce the size of pension contributions transferred to the private pension system, thus helping to cut the general government deficit. On the monetary policy front, we think the MPC is unlikely to deliver as many cuts as the FRA market is pricing in. In our base case scenario, we expect rates to be cut only once by 25bps in June or July 2013. By contrast, the FRA is pricing in 50-75bps of rate cuts.

Figure 38. Hungary and Poland — Economic Forecasts, 2012-2014F

		Hungary			Poland		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.7%	0.2%	1.3%	2.0%	1.3%	2.8%
Final Domestic Demand	YoY	-2.1	-0.8	0.0	0.4	0.0	2.2
Private Consumption	YoY	-1.4	-0.5	0.2	0.5	1.0	2.2
Fixed Investment	YoY	-3.8	-2.0	-0.5	0.6	-3.1	2.6
Exports	YoY	2.0	2.2	3.8	1.6	3.1	4.0
Imports	YoY	0.1	1.3	2.7	-2.5	0.3	2.9
CPI	YoY	5.7	2.4	3.1	3.7	1.2	2.4
Unemployment Rate	%	10.9	10.6	10.2	13.3	14.2	13.4
Current Account	US$ bn	2.1	3.2	4.3	-17.3	-14.0	-19.6
	% of GDP	1.6	2.6	3.4	-3.5	-2.8	-3.7
Fiscal Balance	% of GDP	-2.0	-2.7	-2.9	-3.5	-3.5	-2.8
Euro Exchange Rate	Average	289	298	295	4.18	4.16	4.06

Sources: Haver Analytics and Citi Research

Czech Republic

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We keep our forecast of almost flat industrial production in YoY terms in 2013 after the decline of 0.6% in 2012. Though February industrial data were somewhat better than we expected, March confidence is not supportive and, hence, we keep our forecast for GDP to fall by 0.1%QoQ (down 1.3% YoY) in 1Q13 after declining by 0.2% QoQ (down 1.7% YoY) in 4Q12. Though March CPI growth remains 0.3%pt below the CNB´s 2%YoY forecast, it is evaluated by CNB as a "slightly anti-inflationary risk" that reflects a milder contraction of adjusted core CPI excl. fuel to 0.34%YoY in March. Overall, for the time being, we do not expect a significant change in CNB´s forecast of 3M PRIBOR in May, as the weaker koruna is likely to offset external downward pressures. However, the forecast is likely to be skewed to the downside given our forecast of a 25bp ECB cut in Q2 (most likely May). Having said this, we maintain our view of CNB´s desired level of EURCZK at 25.8 in short-term. However, if there is a larger downside move in EURIBOR in the course of 2Q13 not accompanied by a downward revision of consensus forecasts for Euro area GDP, it could move the EURCZK lower. However, as we expect foreign demand to recover less than CNB assumes, we think that CNB would be content if the EURCZK is somewhat above 26 in late 2013. All in all, while we expect the CNB to cut its forecast of 3M PRIBOR slightly in May, we expect a stronger need for easing monetary conditions to be apparent later.

Romania

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The recent data provide a glimmer of hope for economic recovery. The February trade data and industrial production reading offer encouraging signs for the growth outlook. However, we need to see additional evidence showing a meaningful pick up in domestic demand to become more comfortable about the country's recovery prospects. Based on the available data, we expect GDP growth to pick up moderately to 1% this year from 0.7% in 2012. Turning to monetary policy, the NBR's stance remains accommodative, as is evidenced by the wedge between the policy rate and money market rates. We expect the NBR to maintain its accommodative stance going forward as long as the currency remains stable and inflation remains broadly in line with the Bank's inflation forecast trajectory. Nonetheless, the challenging inflation outlook, the risks associated with the IMF program and potential spillovers from the euro area crisis are likely to limit the ability of the NBR to relax liquidity conditions further without hurting the currency, in our view.

Figure 39. Czech Republic and Romania — Economic Forecasts, 2012-2014F

		Czech Republic			Romania		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.3%	-0.2%	0.9%	0.7%	1.0%	2.9%
Final Domestic Demand	YoY	-2.5	-1.1	0.8	1.9	1.0	2.5
Private Consumption	YoY	-3.6	-1.0	0.3	1.0	0.7	2.4
Fixed Investment	YoY	-1.7	-1.9	2.3	5.0	2.0	3.5
Exports	YoY	3.8	1.8	2.4	-3.1	2.0	4.0
Imports	YoY	1.9	0.6	4.6	-0.8	1.5	3.0
CPI	YoY	3.3	1.6	1.5	3.3	5.3	3.6
Unemployment Rate	%	7.0	7.6	7.7	5.1	5.2	5.5
Current Account	US$ bn	-4.5	-3.3	-4.0	-6.5	-7.0	-8.7
	% of GDP	-2.3	-1.7	-2.0	-3.8	-3.8	-4.5
Fiscal Balance	% of GDP	-4.4	-3.0	-2.7	-2.2	-2.2	-2.5
EURCZK, USDRON	Average	25.1	25.9	25.3	3.5	3.4	3.5

Sources: Haver Analytics and Citi Research

Brazil

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February's activity indicators disappointed, motivating a downward revision in our 1Q13 GDP growth forecast to 0.9% QoQ (from 1.0% QoQ), although we keep our 2013 and 2014 annual estimates at 3.1% and 4.0%, respectively. On the inflation front, recent upward surprises led us to raise our 2013 year-end CPI inflation estimate to 5.8% (from 5.6%), while maintaining our 2014 year end annual forecast at 5.7%.These forecasts are conditioned on our interest rate call, which allows for a process of monetary policy normalisation beginning in April through a 25bp hike in the Selic rate. Regarding FX markets, additional monetary easing in advanced countries tends to favour the domestic currency, likely sustaining USD/BRL below the 2.0 level in the near term. In addition, we keep our more pessimistic view about the current account deficit, although we expect it to remain financed by capital inflows. Finally, the government announced additional tax exemptions for some sectors, hurting our primary fiscal result estimates (to 1.8% of GDP in 2013 and to 2.0% of GDP for 2014 and thereafter). Despite this worse fiscal outlook, we still see the ratio of net public debt to GDP declining slightly.

Mexico

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Activity rebounded in January, as the IGAE (a monthly proxy of GDP) grew by 3.4%YoY versus 1.4% in December. Recent data suggest lower annual growth rates for February and March, reflecting negative calendar effects. All in all, we maintain our annual GDP growth forecast at 1.7%YoY for 1Q13, and at 3.6% for 2013 as a whole. Meanwhile, the BoJ has added to abundant liquidity worldwide which, combined with recent progress on the structural reform front, explains the stronger MXN. We are revising our 0-3 month prospect for the USDMXN to 12.0, down from 12.2 before. The FX commission recently announced the cancelation of the USD auction mechanism and this increases the probability of the reintroduction of auctions of dollar-put options aimed at addressing volatility during periods of peso appreciation via reserve accumulation. Since the discussion is not about the level of the exchange rate, but rather about how to absorb the positive external shock, the range of policy measures could also include monetary easing. Nonetheless, the current inflation hump is likely to reach 4.6% YoY in April and probably will last until July. As a result, we think the use of other policy tools is more likely. We reiterate our call for the policy rate to end 2013 at the current level of 4%.

Figure 40. Brazil and Mexico — Economic Forecasts, 2012-2014F

		Brazil			Mexico		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	0.9%	3.1%	4.0%	3.9%	3.6%	3.8%
Final Domestic Demand	YoY	1.7	3.8	4.6	3.7	3.5	4.0
Private Consumption	YoY	3.1	4.1	4.5	3.3	3.2	3.6
Fixed Investment	YoY	-4.0	3.2	7.0	5.9	6.0	6.8
Exports	YoY	0.5	5.2	5.1	4.6	3.1	8.9
Imports	YoY	0.2	8.6	8.1	4.1	2.2	6.4
CPI	YoY	5.4	6.3	5.7	4.1	3.9	3.5
Unemployment Rate	%	5.5	5.5	5.4	5.0	5.1	4.5
Current Account	US$ bn	-54.2	-69.2	-78.9	-12.8	-24.8	-27.7
	% of GDP	-2.5	-3.1	-3.2	-1.1	-1.8	-1.9
Fiscal Balance	% of GDP	-2.6	-3.5	-3.1	-2.6	-2.1	-2.0
US Dollar Exchange Rate	Average	1.95	1.98	2.01	13.16	11.97	12.01

Sources: Haver Analytics and Citi Research

Argentina

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The BCRA's reserves remain under strong pressure, falling by USD2.8bn during 1Q13 and USD6.8bn during the year ending in March. This annual drop is the biggest since the abandonment of the Convertibility system in 2002, and is only comparable to 2011. Naturally, the flipside of this drain in reserves is the BCRA's reduced ability to purchase foreign currency in the FX market: it has sold USD0.3bn so far this year (compared to purchases for USD3.6bn during the same period of 2012), and has only bought USD1.6bn during the last three quarters. Meanwhile, the exchange rate in the parallel markets has been hovering around 8.4ARS/USD, compared to an official USDARS rate of 5.2. Needless to say, our forecast for ARS/USD at 6.0 for the end of this year has an upward bias. On the activity front, growth has failed to pick up during 1Q13. However, the evolution of activity has been roughly in line with our expectations and we therefore reaffirm our real GDP growth forecast of 3% for this year, also with a downside bias. Lastly, inflation has been slowing thanks to the price controls imposed by Authorities. Yet, these controls look likely to fail in the medium term, as on previous occasions.

Venezuela

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The better-than-expected results for the opposition at the presidential elections show that the political arena in Venezuela is highly polarised and may point towards a complicated political outlook going forward. That being said, we think that the small margin of victory for the PSUV's candidate, Nicolás Maduro, against Henrique Capriles will create a difficult environment for him to govern for two reasons. On the one hand, the results suggest that Mr. Maduro cannot count on strong political support and that the sympathy effect associated with the passing away of Mr. Chávez seems to have worn off rather quickly. This situation could make him take a political stance where higher intervention and more social programs are announced in order to increase his popularity. On the other hand, the high support for the opposition may show that Mr. Maduro did not inherit the political capital of Mr. Chávez, which could create some divisions within Chavismo. We continue to expect that the ongoing political scenario will take its toll on economic activity, especially since the government could well be more focused on politics than on economics. This leads us to confirm our view that the economy will weaken markedly, with GDP growth standing at only about 1% this year and inflation climbing (30% YoY with an upward bias). In addition, the uncertainty regarding FX disbursements (in particular regarding the newly implemented SICAD system) will continue affecting the private sector and the scarcity of goods displayed in the country.

Figure 41. Argentina and Venezuela — Economic Forecasts, 2012-2014F

		Argentina			Venezuela		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	1.9%	3.0%	3.0%	5.6%	1.0%	2.0%
Final Domestic Demand	YoY	2.5	3.3	2.8	11.5	-0.2	0.7
Private Consumption	YoY	4.4	3.5	3.1	7.0	-0.8	0.0
Fixed Investment	YoY	-4.9	1.6	1.9	22.4	-0.9	1.1
Exports	YoY	-6.6	2.2	-1.9	1.6	2.6	4.8
Imports	YoY	-5.2	4.4	-2.3	22.2	-1.9	-1.0
CPI	YoY	10.0	10.3	12.5	21.1	24.6	24.0
Unemployment Rate	%	7.2	7.6	7.8	5.9	6.4	6.8
Current Account	US$ bn	0.5	2.0	1.0	11.0	20.2	22.4
	% of GDP	0.1	0.4	0.2	2.9	5.9	5.1
Fiscal Balance	% of GDP	-2.6	-2.7	-2.9	-5.0	-4.0	-4.0
US Dollar Exchange Rate	Average	4.54	5.46	6.74	4.29	6.13	6.30

Sources: Haver Analytics and Citi Research

Saudi Arabia

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Saudi oil production was flat in March, standing at 9mbpd, but significantly down from a peak of 9.8mbpd last August (Bloomberg data). Although some of the decline is explained by lower domestic consumption, we note production at end-February 2012 was almost 9.7mbpd. This suggests that broader Saudi concerns regarding supply and demand risks, and a desire to avoid sharp declines in the price, are behind the production cuts as well. Average oil production in 2012 was almost 6% up on 2011, and, combined with sustained high oil prices, boosted total revenues to the government to over SAR 1.2tr, higher than our own projections. Expenditures, however, also exceeded projections, up 6.1% on 2011 outlays, resulting in an overall surplus of SAR 386bn (14.2% of GDP), only slightly above our projection of SAR 342bn (12.6% of GDP). For 2013, we are projecting a decline in both oil production and prices, resulting in a decrease of over 13% in government revenues (although at SAR 1.1tr our figure is still a third higher than the government's own very conservative revenue projections). With expenditures expected to rise by around 5% this year, we see the overall surplus shrinking to around 4.6% of 2013 GDP, a trend that will continue in the future as oil production and prices soften going forward, while expenditure will probably rise steadily. We have calculated the 2013 fiscal breakeven oil price (assuming average oil production of 9.5mbpd) to be US$80 per barrel. In terms of economic activity, our projected reduction in production this year would result in a shrinking of the oil economy of almost 3%, which should be compensated by a surge in non-oil growth (helped by government expenditure and housing) of 8.5%, leading to overall growth of just over 6% for 2013.

United Arab Emirates

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Draft legislation allowing up to 100% foreign ownership in companies outside free zones has been rejected by the UAE's Federal National Council (FNC), the country's consultative council. The clause of an amended company law that would allow foreign ownership will now be included in a new foreign investment law, subject to amendments. In Dubai, Dubai Group, the private equity arm of Dubai Holdings, has struck a deal with four banks that had last year threatened litigation due to frustration over the company's ongoing US$6bn debt restructuring. According to reports (FT, March 3), the banks will take a haircut of over 80% in order to receive funds up front rather than be rolled into a lengthy restructuring. The Investment Corporation of Dubai (ICD) has also entered into talks to refinance US$2bn in loans coming due this summer (Reuters, Feb 11).

Figure 42. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2012-2014F

		Saudi Arabia			United Arab Emirates		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	6.8%	6.2%	7.3%	2.1%	4.6%	4.9%
Final Domestic Demand	YoY	2.3	8.1	8.1	3.4	3.4	3.8
Private Consumption	YoY	1.6	5.0	5.0	2.0	2.0	3.0
Fixed Investment	YoY	1.1	10.0	10.0	5.0	5.0	5.0
Exports	YoY	-16.9	-8.3	1.7	13.0	13.0	13.0
Imports	YoY	5.2	15.0	15.0	15.0	15.0	15.0
CPI	YoY	4.0	6.0	8.0	1.0	1.3	1.5
Current Account	US$ bn	176.2	113.5	87.2	12.0	20.7	31.1
	% of GDP	24.2	15.7	11.2	3.3	5.3	7.3
Fiscal Balance	% of GDP	14.2	4.6	-0.7	NA	NA	NA
US Dollar Exchange Rate	Average	3.75	3.75	3.75	3.67	3.67	3.67

Sources: Haver Analytics and Citi Research

Nigeria

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

South Africa

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(On Leave)

Ongoing problems in the mining sector in 2H 2012 dragged down growth for the year and are unlikely to be resolved quickly as the country enters its biannual wage negotiating round in May. The retail sector has also lost momentum as consumer balance sheets remain stretched and real incomes wane amidst rising inflation. Together with a pull-back in unsecured lending and attempts to contain the public sector wage bill, consumption growth will be limited in 2013. Low business confidence is keeping a lid on private investment intentions and growth is only likely to come from replacement/maintenance of current capex. While this limits capital imports, government infrastructure plans should keep public sector imports resilient, and therefore we expect the current account to narrow only slightly this year. Combined, all this will likely continue to lead to pressure on the rand. Rising food inflation should push CPI above the 6% target ceiling in Q2 13, although sub-par GDP growth will limit the SARB's responsiveness. As such, the repo rate will remain unchanged at 5.0% until Q4 14, in our view. Fiscal policy will remain a key focus through the year from a financing and sovereign ratings perspective. Slower fiscal consolidation should be expected but, if the rating agencies see a bias toward 'social expenditure', a further sovereign ratings downgrade cannot be ruled out.

Figure 43. Egypt, Nigeria and South Africa — Economic Forecast, 2012-2014F

		Egypt			Nigeria			South Africa		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	2.1%	1.2%	3.5%	7.4%	6.8%	7.2%	2.5%	2.6%	3.1%
Final Domestic Demand	YoY	4.0	-0.3	2.8	NA	NA	NA	4.0	3.9	4.4
Private Consumption	YoY	2.8	-0.7	2.5	NA	NA	NA	3.5	2.6	3.4
Fixed Investment	YoY	3.8	1.8	4.7	NA	NA	NA	5.7	6.5	7.1
Exports	YoY	-1.1	1.7	6.1	NA	NA	NA	0.1	-0.5	3.1
Imports	YoY	2.7	-3.4	3.6	NA	NA	NA	6.3	5.6	6.6
CPI	YoY	7.1	12.6	12.7	12.2	9.8	9.7	5.7	5.9	5.2
Unemployment Rate	%	12.5	14.0	15.0	NA	NA	NA	25.7	26.5	27.0
Current Account	US$ bn	-8.9	-7.0	-8.0	6.9	11.9	12.3	-23.2	-21.6	-21.9
	% of GDP	-3.6	-3.0	-3.2	2.4	3.7	3.3	-6.0	-5.7	-5.5
Fiscal Balance	% of GDP	-10.0	-9.7	-8.6	-2.8	-2.6	-2.8	-4.4	-4.6	-4.4
US Dollar Exchange Rate	Average	6.07	7.22	7.81	158.8	160.92	164.00	8.21	9.31	9.59

Sources: Haver Analytics and Citi Research

Figure 44. Selected Emerging Market Countries — Economic Forecast Overview, 2012-2014F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Asia	**6.2%**	**6.5%**	**6.5%**	**3.9%**	**3.8%**	**4.0%**	**1.7%**	**1.5%**	**1.3%**	**-2.4%**	**-2.4%**	**-2.3%**
China	7.8	7.7	7.3	2.6	2.9	3.5	2.3	2.2	2.0	-2.0	-2.0	-2.0
Hong Kong	1.4	3.0	3.5	4.1	4.3	3.6	1.1	5.6	6.2	3.2	1.8	1.0
India*	5.0	5.7	6.4	7.3	6.5	6.0	-5.3	-4.9	-4.4	-7.3	-7.0	-6.7
Indonesia	6.2	6.2	6.3	4.3	5.6	4.1	-2.8	-2.1	-1.8	-1.8	-2.1	-1.4
Korea	2.0	3.2	4.1	2.2	2.3	3.0	3.8	2.7	2.0	1.4	0.8	1.4
Malaysia	5.6	5.5	6.0	1.6	2.0	2.8	6.4	5.0	4.0	-4.5	-4.0	-3.5
Mongolia	12.3	13.8	11.0	14.3	12.0	10.0	-31.3	-22.5	3.2	-8.3	-2.4	-2.0
Philippines	6.6	6.2	6.6	3.1	3.3	3.7	2.8	2.3	1.9	-2.3	-2.3	-2.0
Singapore	1.3	2.0	4.0	4.6	3.5	2.8	18.6	14.0	13.5	1.1	0.7	0.5
Sri Lanka	6.4	6.7	7.1	7.5	7.0	6.5	-6.6	-5.4	-4.0	-6.4	-6.2	-5.7
Taiwan	1.3	3.5	4.0	1.9	1.7	1.9	10.5	8.4	8.0	-1.6	-1.2	-1.3
Thailand	6.4	4.7	4.8	3.0	3.2	3.6	0.7	-0.2	-0.5	-2.1	-2.2	-2.1
Vietnam	5.0	5.2	5.5	9.3	7.6	7.7	5.8	5.0	4.0	-5.2	-4.8	-4.0
Latin America	**2.4**	**3.3**	**3.9**	**5.8**	**6.3**	**5.9**	**-1.7**	**-1.9**	**-1.9**	**-2.3**	**-2.7**	**-2.6**
Argentina	1.9	3.0	3.0	10.0	10.3	12.5	0.1	0.4	0.2	-2.6	-2.7	-2.9
Brazil	0.9	3.1	4.0	5.4	6.3	5.7	-2.5	-3.1	-3.2	-2.6	-3.5	-3.1
Chile	5.6	4.8	5.1	3.0	2.0	3.0	-3.4	-2.4	-2.5	0.6	-0.3	-0.4
Colombia	4.0	3.8	4.5	3.2	2.1	3.0	-3.1	-3.8	-3.0	-0.1	-1.1	-0.7
Mexico	3.9	3.6	3.8	4.1	3.9	3.5	-1.1	-1.8	-1.9	-2.6	-2.1	-2.0
Panama	10.7	9.0	8.0	5.7	4.6	4.4	-9.0	-8.5	-7.5	-2.1	-3.0	-3.0
Peru	6.3	6.2	6.4	3.7	2.6	2.6	-3.6	-2.6	-2.7	1.9	-0.6	-2.0
Venezuela	5.6	1.0	2.0	21.1	24.6	24.0	2.9	5.9	5.1	-5.0	-4.0	-4.0
Europe	**2.4**	**2.7**	**3.4**	**5.3**	**5.6**	**5.2**	**0.0**	**-0.5**	**-1.6**	**-1.8**	**-2.2**	**-3.2**
Czech Republic	-1.3	-0.2	0.9	3.3	1.6	1.5	-2.3	-1.7	-2.0	-4.4	-3.0	-2.7
Hungary	-1.7	0.2	1.3	5.7	2.4	3.1	1.6	2.6	3.4	-2.0	-2.7	-2.9
Kazakhstan	5.2	4.8	4.1	5.1	6.6	6.3	3.5	3.4	1.9	0.8	2.7	1.8
Poland	2.0	1.3	2.8	3.7	1.2	2.4	-3.5	-2.8	-3.7	-3.5	-3.5	-2.8
Romania	0.7	1.0	2.9	3.3	5.3	3.6	-3.8	-3.8	-4.5	-2.2	-2.2	-2.5
Russia	3.4	3.1	3.6	5.1	6.6	5.4	4.0	2.8	0.9	-0.7	-2.0	-4.1
Slovakia	2.0	0.7	1.6	3.6	2.2	2.5	2.3	3.7	3.2	-4.4	-3.2	-2.9
Turkey	2.2	4.0	4.3	8.9	7.4	7.3	-6.0	-7.0	-7.1	-2.0	-2.2	-2.7
Ukraine	0.2	0.2	3.2	0.6	3.4	6.1	-8.4	-8.5	-5.5	-5.6	-4.5	-4.6
Africa/Mideast	**5.0**	**5.0**	**5.5**	**5.0**	**5.7**	**6.2**	**10.6**	**7.9**	**6.1**	**3.0**	**-0.4**	**-2.2**
Bahrain	3.5	3.6	4.4	2.8	4.0	2.5	11.5	9.7	5.4	1.6	3.7	3.4
Egypt	2.1	1.2	3.5	7.1	12.6	12.7	-3.6	-3.0	-3.2	-10.0	-9.7	-8.6
Ghana	7.4	7.0	6.8	9.2	9.5	10.7	-11.7	-10.0	-8.9	-7.6	-12.7	-8.5
Iraq	11.0	11.4	9.5	6.1	6.0	6.0	26.2	21.0	16.5	5.5	-1.3	-3.5
Israel	2.9	3.2	3.0	1.7	2.0	2.8	-0.4	0.2	1.9	-3.7	-4.3	-2.5
Jordan	2.5	3.0	4.0	4.8	5.5	5.0	-19.7	-14.2	-12.0	-7.8	-7.7	-7.7
Kenya	5.0	5.4	6.1	9.6	5.8	7.7	-10.5	-8.9	-7.6	-5.3	-5.0	-4.7
Kuwait	8.4	3.9	4.0	2.9	5.0	5.0	50.6	48.7	45.6	23.2	12.6	6.3
Lebanon	2.0	2.0	4.5	6.4	5.0	5.0	-14.6	-15.7	-15.9	-8.7	-10.1	-10.3
Nigeria	7.4	6.8	7.1	12.2	9.2	9.7	2.5	3.7	3.3	-2.8	-2.6	-2.8
Oman	7.1	6.7	6.7	2.9	3.0	3.0	2.9	9.4	6.0	11.0	12.3	8.8
Qatar	6.0	8.3	7.2	3.0	3.0	3.0	28.5	17.9	9.4	5.5	2.4	0.5
Saudi Arabia	6.8	6.2	7.3	4.0	6.0	8.0	24.2	15.7	11.2	14.2	4.6	-0.7
South Africa	2.5	2.6	3.1	5.7	5.9	5.2	-6.0	-5.7	-5.5	-4.4	-4.6	-4.4
Tanzania	6.4	6.8	7.0	16.1	9.0	8.8	-11.9	-10.2	-11.5	-5.4	-5.0	-5.6
UAE	2.1	4.6	4.9	1.0	1.3	1.5	3.3	5.3	7.3	NA	NA	NA
Uganda	4.0	4.7	5.5	14.7	5.6	5.5	-11.0	-11.7	-11.5	-5.5	-5.2	-4.5
Zambia	6.5	6.9	7.5	6.6	7.2	7.4	-3.4	0.5	3.1	-4.3	-3.5	-3.3
Total	**4.7**	**5.1**	**5.4**	**4.5**	**4.8**	**4.8**	**1.8**	**1.3**	**0.8**	**-1.7**	**-2.2**	**-2.5**

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

Sovereign Ratings Outlook

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The *Sovereign Ratings Outlook* is a joint product between the Citi economics and rate strategy teams, with input from various other research teams. We aim to forecast the direction and scale of sovereign debt ratings (local currency), as well as any changes in the ratings outlook, for a range of countries. These are our judgments over the ratings outlook, rather than model-determined recommendations. All economic and fiscal forecasts are consistent with those published in Citi's monthly "*Global Economic Outlook and Strategy*" or other research. We do not aim to make a judgment on the financial market implications of ratings changes, except in so far as we expect any such market implications to affect other sovereign ratings.

Given economic updates in this publication and based on rating agency criteria, we highlight our economists' and strategists' main expectations for sovereign ratings over the near (2-3 quarters) and longer (2-4 years) term.

Figure 45. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

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

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. NA Not available. Sources: Moody's, S&P and Citi Research

* Based Citi economists' longer term (2015-2017) view, Citi expects Greece and Portugal to remain sub-investment grade in coming years, and for Italy and Spain to fall to sub-investment grade ratings, and this may well include a period of "selective default" as determined by the rating agencies around the time of debt restructuring. Following the restructuring, we expect such sovereigns to attain a mid sub-IG rating.

Expected Ratings Issues

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Rating agencies busy affirming the status quo

S&P and Moody's have been busy publishing over recent days, updating views behind their sovereign ratings. Both agencies have generally affirmed current ratings and outlooks. We summarise and provide Citi's latest views[9].

In terms of fiscal finances, Moody's expects Spain's general government balance to be -6.2% in 2013 (the EC expect -6.7%).

Spain: Following their Special Comment on 9 Feb, Moody's released their Credit Opinion on the sovereign on 12 April, affirming the Baa3 rating with a Negative Outlook. Moody's base case is for Spain to return to positive growth in 2014 although the "*negative rating outlook reflects Moody's assessment that the risks to the baseline scenario are high and skewed to the downside*" (Credit Opinion 12th April). In addition: "*Spain's rating would be downgraded if any of the above risk factors led us to conclude that the Spanish government had either lost, or was very likely to lose, access to private markets*". As Moody's is clearly focused on medium term economic drivers and, in the near term, market access appears reasonably secure (and has done for several months), Citi does not anticipate any significant downward ratings pressure on the Spanish sovereign in the immediate term.

Ongoing political risks likely to be watched closely by rating agencies

Italy: In their last Issuer Comment, Moody's stated that "*Italy's mixed election outcome is credit negative*". This was largely due to the political uncertainty that such an outcome was likely to generate. Moody's noted "*Italy's progress on fiscal consolidation has been material*" but countering that, downgrade pressure could emerge if economic prospects deteriorated or if reform implementation stalled. Although we do not expect a downgrade of the Italian sovereign in the immediate term, risks have clearly risen over the medium term. Downgrade pressure is likely to emerge in our view should the political gridlock remain in place longer than expected and/or the resultant government is a weak or temporary one.

Like various EMU sovereigns, we do not expect any immediate change in Portugal's rating

Portugal: In their latest Credit Analysis (5 April), Moody's affirmed its rating of Portugal at Ba3 Negative Outlook. Moody's continues to acknowledge Portugal's relatively high living standards and its institutional strength. These are balanced by "*considerable uncertainty over the prospects for institutional reform in the euro area and the increasingly poor macroeconomic outlook across the region*". Moody's also acknowledged on 11 April that "*Portugal's Constitutional Court Ruling Deals Setback to Government's Fiscal Efforts*" in an Issuer Comment so entitled.

Upgrade by Moody's still our base case over coming quarters

Ireland: Moody's affirmed the Ba3 rating on Negative Outlook on 12 April. From Citi's point of view, Ireland's fiscal prospects now seem better than previously expected and our economists no longer expect debt structuring involving privately-held Irish government debt in the years ahead. Should Ireland continue to make steady progress towards independent and sustained private market access, then this is likely to be one factor in Moody's upgrading Ireland to Baa3 (investment grade) later this year in our view.

S&P kept the UK's rating at AAA (Negative Outlook)

UK: S&P has not downgraded the UK and recently affirmed the UK's AAA standard (Negative Outlook). S&P cited the UK's flexibility in terms of monetary and fiscal policy as key credit strengths as well as its ability and willingness to arrest the sovereign's clear economic challenges. We continue to expect S&P to downgrade the UK by one-notch to AA+ given rising debt and likely political tensions, but this will now probably occur in the next year or two rather than in coming quarters.

Moody's focus on budgetary negotiations

US: The most recent Moody's publication (15 April) was entitled "*After Obama Administration's Budget Proposal, US Credit Trend Is Still Unclear*". The focus for Moody's seems to be ongoing budgetary negotiations which are likely to be a key driver in its rating of the US. Moody's continues to rate the US Aaa (Neg Outlook).

[9] See "*European Rates Weekly*", 12 April 2013, Alessandro Tentori et al, Citi.

Interest Rate and Bond Yield Outlook

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There are no material economic changes from last month. We expect the first of two ECB cuts in 2013 to come in May (though possibly June), but our conviction on timing has increased since last month given data and official comments. Grexit remains our base case. Developments around Cyprus have increased this probability from 2 months ago.

The most important changes since last month have not been economic

The most important changes have been non-economic. Both Cyprus and Italian political events have been shrugged off by the market, while the BOJ announcement inspired another round of liquidity-fuelled optimism. This has been reflected in tighter peripheral spreads, flatter curves, and general expressions of risk appetite. With OMT activation most likely to be a function of market pressure, we have pushed our forecast peak for peripheral spreads out to 4Q13 and modified our Bund forecasts accordingly.

Peripheral spreads

Our BTP and Bono spread forecasts are unchanged at 350 and 380bps respectively in 3Q13, and both now peak at 425bps in 4Q13. We have mechanically pushed our 2Q13 averages down in light of the market mood and its optimistic reaction to events. In outright yield terms for BTPs, this translates into quarterly averages of 4.65% for 2Q13, 4.90% for 3Q13, and 5.55% for 4Q13. We still expect the OMT and official machinery to ultimately contain spreads but expect further turmoil, e.g., from the Italian political situation, the fallout from Cyprus, and the implications of weakening growth.

10yr Bunds

Our 10yr Bund forecasts are unchanged at 1.40% for 2Q13 but 25bps lower at 1.40% in 3Q13, reflecting the likelihood of the resurgence of EMU stress focused on Italian election politics and weak growth coming through (even excluding Grexit, our forecast would be well below the consensus growth forecast of 1.0%).

OAT/Bund

We expect the OAT/Bund spread to drift wider after the recent strong outperformance of France. We see the floor for the spread as 50bps with the pressure from the relative net cash requirement/issuance position in 2013 and fundamentals unchanged. The start of a new fiscal year in Japan is also a significant positive given the demonstrable appetite for OATs. Post BOJ, we have also shaved our spread forecasts by 10bps.

Netherlands

We have widened our Netherlands spread forecasts slightly in the coming quarters, reflecting the ongoing economic risks.

Gilts: 10yr, vs Bund, curves, swap spreads and break-evens

In the UK, we have trimmed our gilt yield forecasts by around 20-30bp in the near quarters compared with last month. We believe that a near-term sell-off is likely, but, in general terms, gilt yields are likely to be pinned at low levels by the weak growth outlook, policy action (perhaps including further QE and forward rate guidance) and the EMU crisis which we expect to escalate later this year. However, inflation and fiscal risks continue to grow and we believe that this will drive gilt underperformance vs Bunds. We envisage a widening in the 10yr gilt-Bund spread from 46bp currently into a range of around 50-80bp in the coming quarters. Our forecasts imply that the 2s10s gilt curve will follow a bear steepening trend while 10s30s will bear flatten, albeit only marginally, within a range of 135bp-120bp or so. Swap spreads have widened further since last month but we expect a modest correction in the coming quarters. Finally, we envisage further widening in break-even inflation spreads as realised inflation heads higher (RPI is likely to reach 4% by the summer) and the market continues to upwardly revise inflation expectations in light of the new MPC remit.

Figure 46. Interest Rate and Bond Market Forecasts as of 17 April 2013

		Quarterly Average					
	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Libor	0.28	0.28	0.30	0.34	0.40	0.50	0.60
2 Year Treasury Yield	0.22	0.24	0.30	0.40	0.50	0.63	0.75
5 Year Treasury Yield	0.70	0.78	0.93	1.08	1.28	1.53	1.73
10 Year Treasury Yield	1.72	1.86	2.13	2.38	2.63	2.83	3.00
30 Year Treasury Yield	2.90	3.08	3.40	3.68	3.93	4.13	4.30
2-10 Year Treasury Curve	150	162	183	198	213	220	225
2 Year Swap Spread (Swap Less Govt), bp	15	15	16	19	20	20	20
10 Year Swap Spread (Swap Less Govt), bp	17	17	14	8	3	0	0
30 Year Swap Spread (Swap Less Govt), bp	-7	-6	-10	-15	-18	-23	-28
30 Year Mortgage Yield	3.51	3.58	3.73	3.88	4.10	4.33	4.45
10 Year Breakeven Inflation	240	240	240	240	245	248	243
Euro Area							
Policy Rate	0.75	0.50	0.50	0.25	0.25	0.25	0.25
Overnight Rate (EONIA)	0.07	0.05	0.05	0.03	0.03	0.03	0.03
3-Month (EURIBOR)	0.21	0.10	0.10	0.05	0.05	0.05	0.05
2 Year Schatz Yield	0.01	0.05	0.05	0.00	0.05	0.05	0.05
5 Year Bobl Yield	0.31	0.50	0.50	0.50	0.55	0.60	0.60
10 Year Bund Yield	1.29	1.40	1.40	1.30	1.30	1.40	1.50
30 Year Bund Yield	2.17	2.25	2.25	2.20	2.20	2.25	2.30
2-10 Year Bund Curve	128	135	135	130	125	135	145
10 Year BTP-Bund Spread	310	325	350	425	400	400	400
10 Year Bono-Bund Spread	350	350	380	425	400	400	400
2 Year BTP-Schatz Spread	146	240	240	240	240	240	240
2 Year Bono Schatz Spread	214	250	250	250	250	250	250
10 Year OAT-Bund Spread	55	60	70	90	90	90	90
10 Year Swap Spread (Swap Less Govt.), bp	33	30	20	35	45	45	45
10 Year Breakeven Inflation	175	175	185	185	185	190	195
Japan							
Policy Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.16	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Treasury Yield	0.12	0.10	0.15	0.15	0.15	0.10	0.15
5 Year Treasury Yield	0.27	0.20	0.25	0.30	0.25	0.20	0.30
10 Year Treasury Yield	0.58	0.50	0.60	0.70	0.60	0.50	0.70
30 Year Treasury Yield	1.50	1.40	1.60	1.80	1.60	1.50	1.80
2-10 Year Treasury Curve	46	40	45	55	45	40	55
2 Year Swap Spread (Swap Less Govt.), bp	16	15	17	20	17	15	20
10 Year Swap Spread (Swap Less Govt.), bp	22	15	16	18	16	15	18
UK							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-Month Libor	0.51	0.51	0.51	0.51	0.51	0.51	0.51
2 Year Treasury Yield	0.20	0.25	0.35	0.30	0.30	0.35	0.40
5 Year Treasury Yield	0.66	0.80	1.00	0.95	1.00	1.10	1.20
10 Year Treasury Yield	1.70	1.90	2.15	2.10	2.15	2.30	2.45
30 Year Treasury Yield	3.03	3.25	3.40	3.35	3.40	3.50	3.65
2-10 Year Treasury Curve	150	165	180	180	185	195	205
10 Year Swap Spread (Swap Less Govt.), bp	13	10	5	5	10	20	10
10 Year Breakeven Inflation	311	320	350	335	340	345	345
Australia							
Policy Rate	3.00	2.75	2.75	2.75	2.75	3.00	3.50
3-Month Libor	3.07	2.90	2.90	3.00	3.00	3.20	3.70
2 Year Treasury Yield	2.81	3.00	3.05	3.15	3.20	3.40	3.80
5 Year Treasury Yield	2.94	3.20	3.25	3.40	3.45	3.60	3.95
10 Year Treasury Yield	3.30	3.50	3.65	3.80	3.90	4.00	4.25
2-10 Year Treasury Curve	49	50	60	65	70	60	45
10 Year Swap Spread (Swap Less Govt.), bp	68	60	60	65	70	75	75

Source: Citi Research

Commodities Market Outlook

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Commodity performance during 1Q was even weaker than most analysts had forecast and provided a clear precursor of what's likely to come. Virtually all of the main traded commodities saw prices fall and in many cases fall significantly, most by more than 5% and some by more than 10%. Commodities that rose did so for commodity-specific reasons: US natural gas brought the highest returns of any commodity for the first time in a half decade on the temporary stall in production growth and a measurably colder winter, ending 1Q with a solid month of unusual residential/commercial and power demand; cotton prices rose sharply as well, partly in response to the 18% drop in 2012 but largely on the basis of uncertainty about Chinese buying ahead of reduced plantings; US gasoline rose to record winter levels largely as the residual impacts of 2012's shuttering of Atlantic Basin refining, a significant collapse in Venezuela's refining system (which turned the country from being a structurally long exporter to a structurally short importer of the transportation fuel), and of course because of the devastation of Hurricane Sandy on the US East Coast; and US-based WTI was finally a winner due to de-bottlenecking of logistic systems in the US while waterborne crude stream markets remained firm.

The quarter ahead looks more likely to continue the trends established in 1Q, with many more losers than winners, and this appears to be a precursor for the year ahead. Citi sees price declines looming in virtually all base metals, save for nickel; for all precious and PGM group metals except for palladium; for thermal coal and iron ore; for most other hydrocarbons, except for US natural gas and for most of the grains complex. Citi expects 2013 to be the year in which the death bells ring for the commodity supercycle after its duly noted sunset, ushering in a new decade of opportunities based on how individual commodities will perform against one another and against broader market indicators such as equities or currencies. It will be a period of focus on individual commodity "unicycles" and new relations emerging between and among commodities and other asset classes from fixed income to foreign exchange to global stock markets.

As Citi's second-quarter commodities update, aptly titled 'From Commodities Supercycle to Unicycles' noted, over the next few years, each commodity looks more likely to be sitting on its individual supply/demand fundamentals than on more general factors affecting all of them. This means that as either their separate long-term and short-term cyclical logistics take over, for some prices will rise while for others they will decline, and investors across commodities will be able to take advantage of alpha return strategies focusing on long versus short positions, other relative value relations across the commodity space as well as across time spreads, changes in momentum and volatility. Differentiation amongst investment cycles is likely to become more pronounced over the next few years as well, with deferred investments in oversupplied copper and other base metals markets today turning into tight markets a couple of years down the road, while the downward march of costs in North American and global gas and rising demand maintaining the production boom of the last half decade for perhaps decades to come.

The supercycle decade focused investor attention on supply conditions and prices provided an opportunity for rewarding returns both for commodity producers and for financial investors who, for the first time in history, were able to gain exposure to underlying commodity values without the inconveniences of holding, storing and exposing commodities to degradation and spoilage. In the decade ahead, we believe investors will need to gain a greater understanding of demand conditions. Shifts in underlying investment patterns in China and other emerging markets are a critical source of change for aggregate consumption as China and other EM growth shifts from more commodity-intensive fixed asset investments and industrial

production growth to household-based and service sector growth. But policies are likely to move in the same direction as subsidies for food and fuel come under fiscal pressures and as environmental policies play a role. With respect to the 2013 and 2014 official price forecasts, Citi remains generally bearish underlying forward curves and market consensus as follows:

- For crude oil, prices were marked-to-market and revised up $5/bbl for both US and North Sea streams and the WTI-Brent spread at -$14/bbl was maintained with expectations of greater takeaway capacity from the US mid-continent coming online in 2H'13. Citi now sees global oil demand growth at +0.65-m b/d in 2013. This balance comes from ongoing growth in the non-OECD but an accelerating contraction in the developed world. Latin America, the FSU and China should all see ≈3% 2013 growth. Conversely OECD demand growth for 2013 continues to look exceptionally weak, mainly in Europe where it is expected to drop 0.4-m b/d amid strong supply growth across North America and Iraq this year.

- Bellwether base metals including copper and aluminum and precious metals such as gold were downgraded versus prior forecasts whereby price action year-to-date has affirmed Citi's early bearish calls. Now that there are ways to earn returns in the real economy, the questions over gold and some overly securitized commodities like copper relate to whether their recent robustness is bubble-like and about to burst.

- Staple cereal price conviction calls and the theme of global grains easing discussed throughout 1Q'13 remain intact with US back-to-trend yields and record acreage allocation for corn and beans, large loading programs in Latin America, and stronger wheat production in the Black Sea bloc and Europe in 2013 versus last year. Lower prices should benefit both foreign and domestic consumers that have been forced to curb grain demand as a consequence of trade bans, low inventories and weather-related supply shocks since 2010. Overall, rising cereal prices in 2011 and 2012 should give way to lower prices in 2013 and even lower levels in 2014.

Figure 47. Commodities Price Outlook*

		Point Prices													
		0-3M	6-12M		Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013E	Q3 2013E	Q4 2013E	2013E	2014E
Energy				**5Y Cyclical**											
NYMEX WTI	USD/bbl	85.0	90.0	81.0	103.0	93.3	92.2	88.2	94.1	94.4	85.0	90.0	90.0	90.0	83.0
ICE Brent	USD/bbl	100.0	103.0	85.0	118.4	108.8	109.4	110.1	111.7	112.6	100.0	105.0	100.0	104.0	93.0
Henry Hub Natural Gas	USD/MMBtu	4.30	4.65	N/A	2.47	2.27	2.87	3.39	2.75	3.48	4.30	4.60	4.70	4.30	4.50
Base Metals				**LT Price**											
LME Aluminum	USD/MT	1,900	2,100	2,200	2,216	2,019	1,944	2,017	2,049	2,042	1,935	1,940	1,985	1,975	1,930
LME Copper	USD/MT	7,200	6,800	6,200	8,314	7,833	7,711	7,921	7,945	7,964	7,600	7,400	7,100	7,515	6,775
LME Lead	USD/MT	2,100	2,300	2,200	2,118	1,987	1,984	2,200	2,072	2,314	2,150	2,100	2,200	2,190	2,200
LME Nickel	USD/MT	18,200	21,000	20,000	19,721	17,228	16,383	17,036	17,592	17,387	17,000	18,500	19,250	18,035	20,900
LME Tin	USD/MT	23,500	24,500	20,000	22,986	20,619	19,281	21,547	21,108	24,128	23,500	23,000	23,500	23,530	23,625
LME Zinc	USD/MT	1,950	2,100	2,100	2,040	1,933	1,902	1,979	1,963	2,057	1,950	1,975	2,000	1,995	2,050
Precious Metals				**LT Price**											
COMEX Gold	USD/T. oz	1,600	1,450	1,050	1,691	1,613	1,654	1,718	1669	1632	1580	1555	1455	1555	1435
Silver	USD/T. oz	29	26	16.5	32.6	29.6	29.9	32.6	31.2	30.1	28.0	27.8	26.5	28.1	25.9
Platinum	USD/T. oz	1,515	1,555	1,531	1,604	1,505	1,500	1,600	1552	1634	1515	1523	1530	1550	1625
Palladium	USD/T. oz	790	900	680	683	630	613	653	645	741	790	825	875	810	950
Bulk Commodities				**5Y Cyclical**											
Hard Coking Coal (benchmark Asia)	USD/MT	172	185	200	235	215	225	170	211	165	172	165	180	171	190
Thermal Coal Asia (NEWC)	USD/MT	88	91	105	113	88	88	86	94	91	88	88	90	89	94
Iron Ore Spot (TSI)	USD/MT	130	123	81	142	139	112	121	128	148	130	115	120	128	122
Agriculture															
CBOT Corn	USd/bu	630	500	N/A	641	618	783	737	695	715	630	600	515	615	500
CBOT Wheat	USd/bu	700	720	N/A	643	641	870	846	750	738	700	720	720	720	775
CBOT Soybeans	USd/bu	1,350	1,175	N/A	1,272	1,426	1,675	1,485	1,465	1,448	1,350	1,300	1,175	1,320	1150
CBOT Rice	USD/cwt	15.4	15.3	N/A	14.3	14.8	15.3	15.1	14.9	15.3	15.4	15.4	15.2	15.3	15.0
NYB-ICE Cotton	USd/lb	85	90	N/A	93	81	73	73	80	82	85	85	90	86	N/A
Sugar#11	USd/lb	18.0	18.0	N/A	24.5	21.2	21.0	19.6	21.6	18.4	18.0	18.0	18.0	18.1	N/A
ICE Coffee	USd/lb	145	155	N/A	205	171	172	152	175	144	150	150	155	150	N/A
ICE Cocoa	USD/MT	2,200	2,400	N/A	2,308	2,221	2,440	2,420	2,348	2,176	2,200	2,425	2,475	2,320	N/A

Source: Citi Research, *subject to revision

Notes

Appendix A-1

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