

Equities

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Global Emerging Markets Strategist

EM Quarterly: Discounting Recession

- **Priced In** — After their fourth worst quarter since 1990, EM equities now price in recession, but not a return to 2008-9. Further volatility is likely in Q4 as the EU debt crisis plays out and on further global growth downgrades. EM equities should rally into year-end on valuations and seasonals; we expect big gains over the next year.
- **Macro Worries, But....** — Global GDP forecasts (2.9% in 2012) should fall further, including in GEMs (5.6% growth in 2012). However, solid domestic demand should protect overall growth in EMs, including in China. We show that CEEMEA (especially CE3) is most vulnerable (via exports) to recession in Europe, Asia is least exposed.
- **2008 Parallels** — Several financial asset markets are trading as if this is 2008; we disagree. Just 6% of MSCI GEMs stocks are trading above their 200-day moving averages, almost as oversold as this indicator was in 2008.
- **Discounting Recession** — EPS forecasts in emerging markets are falling, but only slowly: +16% in 2011 and +12% in 2012. Valuations (8.7x forward and 10.2x trailing) are now pricing in earning downgrades of 24-32%. This is more than the 18% fall in EPS in GEMs in the 2001 recession, but still less than the 42% decline in 2008-9.
- **Regions/Countries** — We stay Overweight in Asia (high growth, low beta, little exposure to Europe); we are Underweight in Latam (small) and CEEMEA (bigger). Overweights: China, Korea, Malaysia, Turkey, Chile; we upgrade India to Neutral alongside Brazil and Taiwan. Underweights: Russia, South Africa and Mexico.
- **Favor Domestics** — We favor Financials (at 1.4x Book, just 10% above their 2008 trough) on better news in Q4 for European banks; we also favor Cons Disc. and IT. Global cyclicals are vulnerable to new falls in commodity prices; Neutral: Materials, Underweight: Energy. Please see our stock Model Portfolio (Pages 5-6).

Equities

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GEMs: Regional, Country and Sector Recommendations

	Overweight	Neutral	Underweight
Regions	Asia		Latin America, CEEMEA ↓
Countries	Korea, Turkey, China Chile ↑, Malaysia ↑	India ↑, Brazil, Taiwan Thailand, Czech Rep ↑	Mexico, Russia ↓, S Africa Peru ↓, Morocco, Egypt, Colombia Philippines, Indonesia ↓ Hungary, Poland
Sectors	Financials Consumer Disc Info Tech	Industrials Utilities ↑ Materials ↓	Energy ↓ Health Care, Telecoms Cons Staples

Source: CIRA

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

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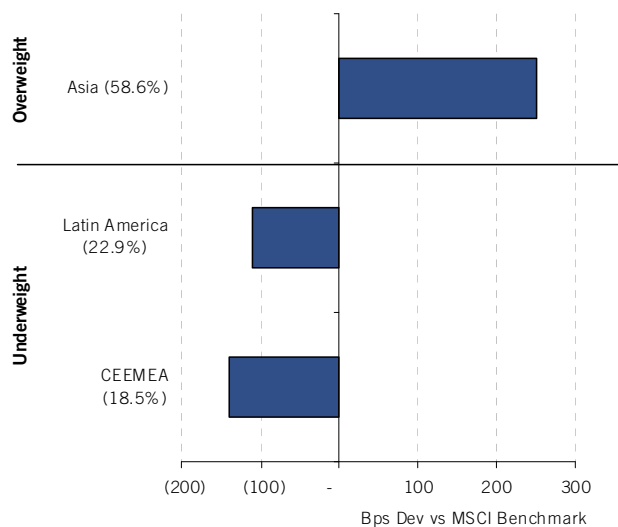
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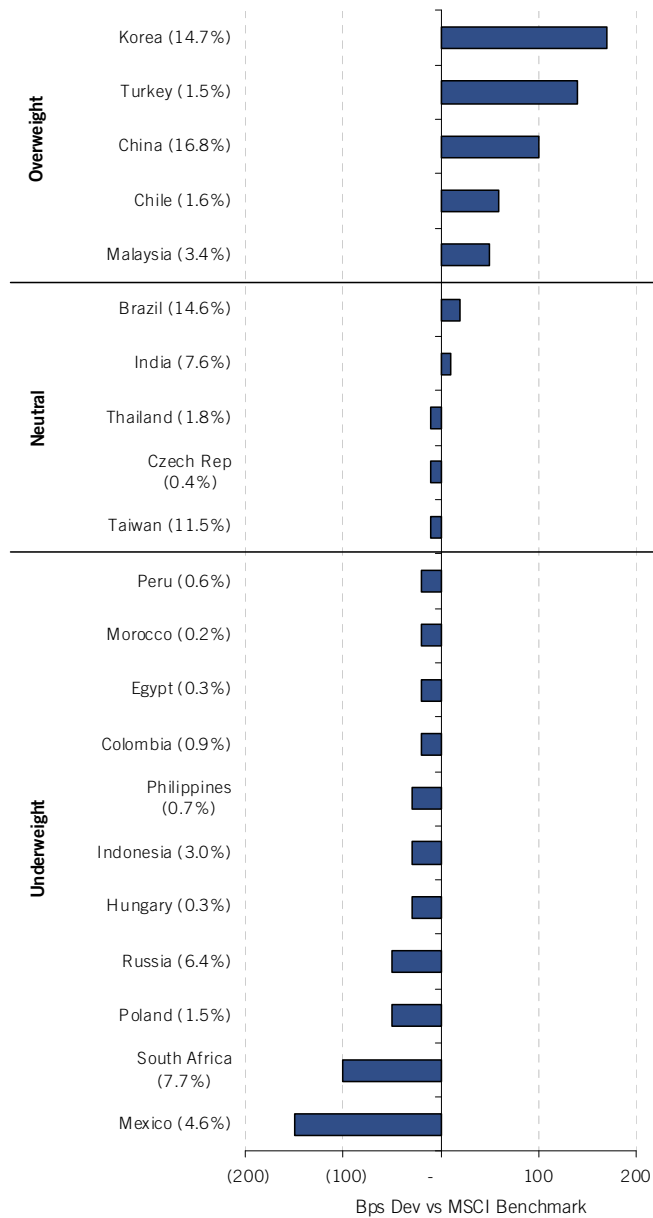
Regional, Country and Sector Allocations

Figure 1. GEMs Regional, Country and Sector Allocation Screen

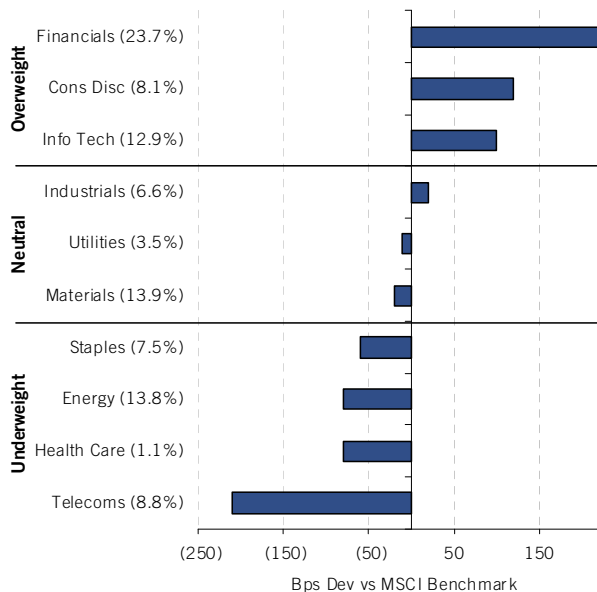
Regional Allocation



Country Allocation



Sector Allocation



Note: Number in parenthesis is benchmark MSCI weight. Please refer to Allocation Model later in this report
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 2. GEMs Stocks: Model Portfolio

Company	CIRA Position	Over/Under (Bps)	MSCI Weight	Portfolio Weight	Ticker	Sector	Rating	Mkt Cap US\$, mn	Currency	Price 5-Oct-11	Perf YTD	Date Added	Inception Price	USD Perf
MSCI Brazil	Overweight	20	14.6%	14.8%							-31.4%			
1 Vale (Preferred)				5.6%	VALE5.BR	Materials	1M	\$115,802	USD	21.14	-26.2%	16-Aug-10	24.80	-14.8%
4 Petróleo Brasileiro - Petrobras				2.9%	PETRA.BR	Energy	1H	\$137,444	USD	18.21	-30.8%	6-Apr-11	28.17	-64.7%
5 Itaú Unibanco				2.5%	ITUB4.BR	Financials	1M	\$71,869	BRL	28.80	-25.1%	28-May-10	33.60	-14.7%
2 AmBev				2.3%	AMBV4.BR	Cons Staples	1M	\$86,369	BRL	31.39	4.7%	13-Jul-10	21.11	48.7%
3 PDG Realty, SA				1.5%	PDGR3.BR	Consumer Disc	1H	\$3,828	BRL	6.24	-36.9%	11-Jan-11	10.17	-41.2%
Chile	Underweight	-	1.6%	2.2%							-32.6%			
6 Endesa Chile				2.2%	EOC.CL	Utilities	1L	\$11,338	CLP	41.47	-22.6%	11-Jan-11	52.63	-21.2%
China	Overweight	100	16.8%	17.8%							-32.9%			
7 CNOOC				5.7%	0883.HK	Energy	1L	\$70,573	CNY	11.34	-30.6%	28-May-10	12.34	-8.1%
12 China Mobile				4.0%	0941.HK	Telecoms	1L	\$196,703	CNY	73.90	2.9%	11-Jan-11	76.90	-4.2%
9 China Construction Bank				2.5%	0939.CN	Financials	1L	\$151,253	CNY	4.44	-28.8%	6-Apr-11	7.52	-41.1%
10 Golden Eagle				2.5%	3308.CN	Consumer Disc	1L	\$3,668	CNY	12.52	-22.4%	6-Oct-11	14.68	-14.9%
8 Agricultural Bank of China				2.2%	1288.CN	Financials	1L	\$123,105	CNY	2.29	-35.8%	9-Jul-11	4.03	-43.3%
11 Huaneng Renewables				0.9%	0958.CN	Utilities	1L	\$2,170	CNY	1.81	und for req	6-Oct-11	2.00	-9.7%
Colombia	Underweight	(20)	0.9%	0.7%							-10.0%			
Czech Republic	Underweight	(10)	0.4%	0.3%							-12.9%			
13 CEZ				0.3%	CEZP.CZ	Utilities	1M	\$20,406	CZK	691.00	-3.8%	6-Oct-11	703.00	-58.8%
Egypt	Underweight	(20)	0.3%	0.1%							-44.1%			
Hungary	Underweight	(30)	0.3%	0.0%							-31.7%			
India	Underweight	10	7.6%	7.7%							-31.1%			
16 Tata Motors				3.5%	TAMO.IN	Consumer Disc	1M	\$8,837	INR	147.40	-42.1%	6-Oct-11	147.40	-5.4%
15 State Bank of India				2.7%	SBI.IN	Financials	1L	\$22,073	INR	1,715	-37.9%	28-May-10	2,235	-28.0%
14 Wipro				1.5%	WIPR.IN	Info Tech	1L	\$16,325	INR	327.90	-31.9%	28-May-10	398.37	-22.7%
Indonesia	Neutral	(30)	3.0%	2.7%							-10.2%			
17 PT Telkom				2.7%	TLKM.ID	Telecoms	1L	\$17,196	IDR	7,700	-0.7%	28-May-10	7,600	5.3%
Korea	Overweight	170	14.7%	16.4%							-23.2%			
19 Samsung Electronics				5.2%	005930.KR	Info Tech	1L	\$106,100	KRW	842,000	-9.9%	11-Jan-11	913,000	-6.9%
22 KB Financial Group				3.5%	105660.KR	Financials	1L	\$13,573	KRW	38,600	-30.5%	28-May-10	49,000	-18.8%
20 Samsung Engineering				3.4%	028050.KR	Industrials	1M	\$6,858	KRW	200,000	6.0%	6-Oct-11	203,500	-0.8%
18 Samsung Fire & Marine				2.5%	000810.KR	Financials	1L	\$8,341	KRW	206,000	-5.4%	6-Oct-11	209,000	-0.5%
21 Hyundai Heavy Industries				1.8%	009540.KR	Industrials	1M	\$17,928	KRW	254,500	-36.8%	11-Jan-11	472,500	-45.6%
Malaysia	Underweight	50	3.4%	3.9%							-13.6%			
23 Maybank				3.9%	MBBM.MY	Financials	1L	\$19,147	MYR	8.01	-0.6%	29-Aug-11	8.72	-7.9%
Mexico	Underweight	(150)	4.6%	3.1%							-21.1%			
24 Wal-mex				3.1%	WALMEXV.MX	Cons Staples	1L	\$42,607	MXN	32.50	-6.3%	6-Oct-11	32.50	0.0%
Morocco	Underweight	(20)	0.2%	0.0%							-11.2%			
Peru	Neutral	(20)	0.6%	0.4%							-29.8%			
25 Credicorp				0.4%	BAP.PE	Financials	1M	\$7,258	USD	91.40	-21.5%	9-Jul-11	86.69	5.4%
Philippines	Underweight	(30)	0.7%	0.4%							-14.0%			
Poland	Neutral	(50)	1.5%	1.0%							-29.9%			
26 Bank Pekao SA				1.0%	BAPE.PL	Financials	1L	\$10,907	PLN	136.50	-19.9%	6-Oct-11	136.50	-1.9%
Russia	Neutral	(50)	6.4%	5.9%							-31.9%			
27 Novatek OAO				4.4%	NVTK.RU	Energy	1M	\$31,515	USD	103.90	-11.6%	6-Oct-11	103.90	0.0%
28 Sberbank RF				1.0%	SBER.RU	Financials	1M	\$45,218	USD	1.92	-42.7%	28-May-10	2.32	-17.2%
29 X5 Retail Group				0.5%	PJPQ.RU	Consumer Disc	1M	\$6,797	USD	25.03	-45.9%	6-Apr-11	41.00	-39.0%
South Africa	Underweight	(100)	7.7%	6.7%							-23.5%			
30 Impala Platinum				3.9%	IMPJ.ZA	Materials	1M	\$12,822	ZAR	161.97	-28.0%	6-Apr-11	201.71	-23.5%
31 Pick'n Pay Stores				1.5%	PIKJ.ZA	Cons Staples	1M	\$2,143	ZAR	35.60	-24.3%	9-Jul-11	41.88	-19.1%
32 Standard Bank Group				1.3%	SBKJ.ZA	Financials	1L	\$18,508	ZAR	93.02	-9.9%	28-May-10	106.95	-16.9%
Taiwan	Neutral	(10)	11.5%	11.4%							-25.9%			
33 TSMC				5.0%	2330.TW	Info Tech	1L	\$58,331	TWD	69.10	1.4%	6-Oct-11	69.00	4.7%
34 Nan Ya Plastics				4.2%	1303.TW	Materials	2L	\$17,341	TWD	64.70	-0.4%	6-Apr-11	88.00	-23.1%
35 Hon Hai Precision				2.2%	2317.TW	Info Tech	1L	\$24,408	TWD	67.60	-33.6%	3-Dec-10	102.27	-30.9%
Thailand	Overweight	(10)	1.8%	1.7%							-20.8%			
36 Kasikornbank				1.7%	KBAN.TH	Financials	1L	\$8,646	THB	105.50	-11.9%	11-Jan-11	126.50	-13.3%
Turkey	Overweight	140	1.5%	2.9%							-28.8%			
37 TAV Havalimanlari Holding AS				1.6%	TAVHL.TR	Industrials	1M	\$1,434	TRY	7.38	-1.3%	6-Oct-11	7.38	
38 Tofas				1.3%	TOASO.TR	Consumer Disc	1M	\$1,749	TRY	6.54	-11.6%	9-Jul-11	7.36	
CIRA portfolio of stocks												Since 27-May-2010:		-0.7%
MSCI Asia	Overweight	250	59.3%	61.8%							-26.6%			
Latin America	Underweight	(110)	22.3%	21.2%							-28.9%			
EMEA	Neutral	(140)	18.3%	16.9%							-27.9%			
MSCI GEMs		(0)	100.0%	100.0%							-27.3%	Since 27-May-2010:		-7.5%
Thomson Reuters TR EM		(0)	0.0%	0.0%							-24.8%	Since 27-May-2010:		-3.9%

A full history of changes to our model is available upon request. No transaction costs are assumed. For methodology, please refer to our "Global Emerging Markets Strategist: GEMs Model Portfolio Update," July 13, 2010. Past performance is no indication of future performance. Source: MSCI, ThomsonReuters and CIRA

Figure 3. GEMs Stocks: Model Portfolio

	Company	CIRA Position	Over/ Under (Bps)	MSCI Weight	Portfolio Weight	Ticker	Country	Rating	Mkt Cap US\$, mn
	Energy	Underweight	-80	13.8%	13.0%				
1	CNOOC				5.7%	0883.HK	China	1L	70,573
2	Petróleo Brasileiro - Petrobras				2.9%	PETR4.BR	Brazil	1H	137,444
3	Novatek OAO				4.4%	NVTK.RU	Russia	1M	31,515
	Materials	Neutral	-20	13.9%	13.7%				
4	Vale (Preferred)				5.6%	VALE5.BR	Brazil	1M	115,802
5	Impala Platinum				3.9%	IMPJ.ZA	South Africa	1M	12,822
6	Nan Ya Plastics				4.2%	1303.TW	Taiwan	2L	17,341
	Industrials	Neutral	20	6.6%	6.8%				
7	Samsung Engineering				3.4%	028050.KR	Korea	1M	6,858
8	Hyundai Heavy Industries				1.8%	009540.KR	Korea	1M	17,928
9	TAV Havalimanlari Holding AS				1.6%	TAVHL.TR	Turkey	1M	1,434
	Consumer Disc.	Overweight	120	8.1%	9.3%				
10	PDG Realty, SA				1.5%	PDGR3.BR	Brazil	1H	3,828
11	X5 Retail Group				0.5%	PJPq.RU	Russia	1M	6,797
12	Golden Eagle				2.5%	3308.CN	China	1L	3,668
13	Tata Motors				3.5%	TAMO.IN	India	1M	8,837
14	Tofas				1.3%	TOASO.TR	Turkey	1M	1,749
	Consumer Staples	Underweight	-60	7.5%	6.9%				
15	AmBev				2.3%	AMBV4.BR	Brazil	1M	86,369
16	Pick'n Pay Stores				1.5%	PIKJ.ZA	South Africa	1M	2,143
17	Walmex				3.1%	WALMEXV.MX	Mexico	1L	42,607
	Health Care	Underweight	-80	1.1%	0.3%				
	Financials	Overweight	220	23.7%	25.9%				
18	Agricultural Bank of China				2.2%	1288.CN	China	1L	123,105
19	Samsung Fire & Marine				2.5%	000810.KR	Korea	1L	8,341
20	China Construction Bank				2.5%	0939.CN	China	1L	151,253
21	Maybank				3.9%	MBBM.MY	Malaysia	1L	19,147
22	Standard Bank Group				1.3%	SBKJ.ZA	South Africa	1L	18,508
23	State Bank of India				2.7%	SBI.IN	India	1L	22,073
24	Kasikornbank				1.7%	KBAN.TH	Thailand	1L	8,646
25	Bank Pekao SA				1.0%	BAPE.PL	Poland	1L	10,907
26	KB Financial Group				3.5%	105560.KR	Korea	1L	13,573
27	Credicorp				0.4%	BAP.PE	Peru	1M	7,258
28	Itaú Unibanco				2.5%	ITUB4.BR	Brazil	1M	71,869
29	Sberbank RF				1.0%	SBER.RU	Russia	1M	45,218
	Info Tech	Overweight	100	12.9%	13.9%				
30	Samsung Electronics				5.2%	005930.KR	Korea	1L	106,100
31	TSMC				5.0%	2330.TW	Taiwan	1L	58,331
32	Wipro				1.5%	WIPR.IN	India	1L	16,325
33	Hon Hai Precision				2.2%	2317.TW	Taiwan	1L	24,408
	Telecoms	Underweight	-210	8.8%	6.7%				
34	PT Telkom				2.7%	TLKM.ID	Indonesia	1L	17,196
35	China Mobile				4.0%	0941.HK	China	1L	196,703
	Utilities	Neutral	-10	3.5%	3.4%				
36	Endesa Chile				2.2%	EOC.CL	Chile	1L	11,338
37	Huaneng Renewables				0.9%	0958.CN	China	1L	2,170
38	CEZ				0.3%	CEZP.CZ	Czech Repub	1M	20,406

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Figure 4. GEMs Stocks: Model Portfolio

	Company	Ticker	Sector	Rating	Mkt Cap US\$, mn	EPS gr 11E	P/E (x) 11E	Analyst	Analyst Comments
MSCI Brazil									
1	Vale (Preferred)	VALE5.BR	Materials	1M	\$115,802	57%	4.2	Alexander Hacking, CFA	— iron ore prices can average higher, China econ on track
4	Petróleo Brasileiro - Petrobras	PETR4.BR	Energy	1H	\$137,444	19%	5.8	Pedro Medeiros	— solid results, domestic gas price hike anticipated
5	Itaú Unibanco	ITUB4.BR	Financials	1M	\$71,869	17%	8.6	Daniel A. Abut	— lending growth recovery continues, attractive margins
2	AmBev	AMBV4.BR	Cons Staples	1M	\$86,369	6%	21.4	Celso W Sanchez, CFA	— strong revenue and cost trends, defensive growth
3	PDG Realty, SA	PDGR3.BR	Consumer Disc	1H	\$3,828	23%	6.1	Dan McGoey, CFA	— strong contracted sales, impressive execution, ROEs
Chile									
6	Endesa Chile	EOC.CL	Utilities	1L	\$11,338	-7%	12.1	Marcelo Britto, Andrew J McC	— geographical diversification, strong track record
China									
7	CNOOC	0883.HK	Energy	1L	\$70,573	34%	6.2	Graham Cunningham	— positive LT growth prospects, increase in gross production
12	China Mobile	0941.HK	Telecoms	1L	\$196,703	6%	10.0	Bin Liu	— defensive play, upside potential in EPS growth & cash return
9	China Construction Bank	0939.CN	Financials	1L	\$151,253	19%	5.8	Simon Ho, CFA	— strong government support, attractive valuations, strong BS
10	Golden Eagle	3308.CN	Consumer Disc	1L	\$3,668	30%	19.0	Eddie Lau	— new opportunities in deepwater rigs, volume growth
8	Agricultural Bank of China	1288.CN	Financials	1L	\$123,105	21%	5.0	Simon Ho, CFA	— strong deposit base, potential benefit from decline in credit costs
11	Huaneng Renewables	0958.CN	Utilities	1L	\$2,170	86%	9.6	Pierre Lau, CFA	— earnings quality should improve with new capacity addition in '11-'12E
Colombia									
Czech Republic									
13	CEZ	CEZP.CZ	Utilities	1M	\$20,406	-17%	9.1	Sofia Savvantidou, Peter Ather	— offers strong balance sheet and high dividend yield vs sector
Egypt									
Hungary									
India									
16	Tata Motors	TAMO.IN	Consumer Disc	1M	\$8,837	439%	5.2	Jamshed Dadabhoy	— strong product positioning, exposure to India capex story
15	State Bank of India	SBI.IN	Financials	1L	\$22,073	-10%	13.2	Manish Chowdhary, CFA	— outperforms with rising rates, strategic direction and focus
14	Wipro	WIPR.IN	Info Tech	1L	\$16,325	15%	15.1	Surendra Goyal, CFA	— growing demand for offshore IT services, strong margins
Indonesia									
17	PT Telkom	TLKM.ID	Telecoms	1L	\$17,196	10%	12.2	Arthur Pineda	— earnings growth recovery, constructive industry dynamic
Korea									
19	Samsung Electronics	005930.KR	Info Tech	1L	\$106,100	-29%	11.2	Henry H Kim, CFA	— market-dominating competitiveness, product leadership
22	KB Financial Group	105560.KR	Financials	1L	\$13,573	2814%	6.3	Jinsang Kim	— low credit risk; quality demand, impressive EPS recovery
20	Samsung Engineering	028050.KR	Industrials	1M	\$6,858	48%	15.5	Sungmee Park, CFA	— strong revenue growth; rapidly declining SG&A burden
18	Samsung Fire & Marine	000810.KR	Financials	1L	\$8,341	20%	14.7	Jinsang Kim	— faster-than-expected auto turnaround, better cost control
21	Hyundai Heavy Industries	009540.KR	Industrials	1M	\$17,928	-1%	5.7	Ethan Kim	— operating efficiency, shipbuilding up-cycle, outlook
Malaysia									
23	Maybank	MBBM.MY	Financials	1L	\$19,147	#VALUE!	12.7	Fiona Leong	— improving domestic banking operation, Kim Eng acquisition
Mexico									
24	Walmex	WALMEXV.MX	Cons Staples	1L	\$42,607	10%	27.0	Celso W Sanchez, CFA	— accelerated expansion plan & superior mkt segmentation approach
Morocco									
Peru									
25	Credicorp	BAP.PE	Financials	1M	\$7,258	18%	10.7	Daniel A. Abut	— positive loan growth outlook, industry leader
Philippines									
Poland									
26	Bank Pekao SA	BAPE.PL	Financials	1L	\$10,907	9%	13.0	Andrzej Powierza, Simon Nelli	— high Tier 1, low loan-to-deposit ratio, limited CHF funding
Russia									
27	Novatek OAO	NVTK.RU	Energy	1M	\$31,515	44%	16.4	Ronald Paul Smith	— high gas production, tolling contribution, constrained costs
28	Sberbank RF	SBER.RU	Financials	1M	\$45,218	82%	4.0	Simon Nellis	— dominant position in banking market, high net profit
29	X5 Retail Group	PJPg.RU	Consumer Disc	1M	\$6,797	18%	20.5	Brady Martin, CFA	— organic rollout under-appreciated, M&A continues also
South Africa									
30	Impala Platinum	IMPJ.ZA	Materials	1M	\$12,822	41%	14.7	Johann Steyn, Johann Pretoriu	— best in class, superior economic value creation
31	Pick'n Pay Stores	PIKJ.ZA	Cons Staples	1M	\$2,143	-23%	22.0	Zaheer Joosub, Brady Martin,	— gaining back market share, margin benefit from central distribution
32	Standard Bank Group	SBKJ.ZA	Financials	1L	\$18,508	23%	10.7	Henry Hall, Simon Nellis	— smoother earnings profile, well diversified
Taiwan									
33	TSMC	2330.TW	Info Tech	1L	\$58,331	-16%	13.2	Roland Shu	— benefits from rapid 28nm production ramp; stable pricing
34	Nan Ya Plastics	1303.TW	Materials	2L	\$17,341	-17%	15.6	Oscar Yee	— upward earnings revisions, attractive valuations
35	Hon Hai Precision	2317.TW	Info Tech	1L	\$24,408	3%	9.3	Kevin Chang	— reduced impact from wage hikes, iPad assembly rate
Thailand									
36	Kasikornbank	KBAN.TH	Financials	1L	\$8,646	30%	10.3	Kritapas Siripassorn, CFA	— stabilizing NIM, robust earnings growth
Turkey									
37	TAV Havalimanlari Holding AS	TAVHL.TR	Industrials	1M	\$1,434	75%	15.4	Mehmet Colakoglu, CFA	— strong passenger traffic, mostly TL cost base
38	Tofas	TOASO.TR	Consumer Disc	1M	\$1,749	17%	7.2	Osman Memisoglu, Heidy Reh	— increasing market share, attractive valuation

Source: MSCI and Citi Investment Research and Analysis

Performance

Figure 5. Performance Update

05-Oct-11	Market Data				Performance (Local Currency, %)					Performance (USD, %)				
	Ticker	Index	52w High	52w Low	1Wk	1Mo	3Mo	YTD	1Yr	1Wk	1Mo	3Mo	YTD	1Yr
Global Indices														
MSCI AC World	MXWD	277	358	272	(1.9)	(5.0)	(17.1)	(15.3)	(10.0)	(2.8)	(8.3)	(19.9)	(16.2)	(10.7)
S&P 500 Index	SPX	1,144	1,371	1,075	(0.6)	(2.6)	(14.5)	(9.0)	(1.4)	(0.6)	(2.6)	(14.5)	(9.0)	(1.4)
DJ Euro Stoxx 50	SX5E	2,179	3,077	1,936	0.1	(1.9)	(23.5)	(22.0)	(21.0)	(2.0)	(8.1)	(29.6)	(22.6)	(24.0)
Japan Nikkei 225	NKY	8,383	10,892	8,228	(2.7)	(6.3)	(15.9)	(18.0)	(11.9)	(3.4)	(6.6)	(11.5)	(13.6)	(4.9)
MSCI GEMs	MXEF	837	1,206	831	(5.0)	(11.5)	(21.0)	(22.4)	(19.3)	(6.1)	(18.1)	(28.3)	(27.3)	(23.7)
MSCI EM Asia	MXMS	344	494	344	(5.7)	(13.6)	(24.1)	(23.8)	(20.6)	(6.4)	(18.3)	(28.4)	(26.6)	(22.6)
MSCI Latin America	MXLA	3,283	4,730	3,203	(2.9)	(7.3)	(15.0)	(21.5)	(20.5)	(4.6)	(17.3)	(27.1)	(28.9)	(27.1)
MSCI EM EMEA	MXEE	283	428	277	(5.0)	(9.8)	(17.5)	(18.3)	(12.6)	(7.0)	(18.8)	(29.3)	(27.9)	(22.8)
MSCI Indices - Asia														
China	MSEUSCF	45	73	44	(11.8)	(23.8)	(33.8)	(32.8)	(33.3)	(11.7)	(23.7)	(33.8)	(32.9)	(33.6)
Korea	MSEUSCO	315	476	308	(3.0)	(8.7)	(22.9)	(19.5)	(10.2)	(4.6)	(18.4)	(30.9)	(32.2)	(14.7)
Taiwan	MSEUSTW	232	323	228	(2.4)	(9.3)	(19.6)	(22.2)	(14.2)	(3.1)	(14.1)	(24.4)	(25.9)	(12.9)
India	MSEUSIA	386	585	386	(4.1)	(5.5)	(16.3)	(23.9)	(24.6)	(5.3)	(12.4)	(24.7)	(31.1)	(31.7)
Malaysia	MSDUMAF	391	492	380	(0.2)	(7.5)	(14.5)	(10.6)	(7.4)	(1.0)	(14.0)	(19.4)	(13.6)	(10.1)
Indonesia	MSEUSINF	748	1,015	733	(6.5)	(14.5)	(17.3)	(11.2)	(13.8)	(6.7)	(18.1)	(20.8)	(10.2)	(13.5)
Thailand	MSEUSTHF	270	385	266	(7.9)	(19.3)	(23.3)	(18.0)	(13.6)	(8.5)	(22.6)	(25.1)	(20.8)	(16.5)
Philippines	MSEUSPHF	301	385	293	(1.7)	(11.9)	(13.8)	(13.9)	(18.0)	(2.6)	(15.4)	(15.4)	(14.0)	(18.1)
MSCI Indices - Latin America														
Brazil	MXBR	2,580	3,923	2,515	(3.5)	(7.4)	(17.2)	(24.0)	(25.4)	(4.8)	(17.8)	(29.5)	(31.4)	(31.7)
Mexico	MXMX	5,107	6,645	4,948	(1.2)	(5.6)	(7.4)	(12.5)	(2.3)	(3.3)	(14.6)	(21.4)	(21.1)	(10.7)
Chile	MXCL	1,961	2,942	1,904	(5.5)	(12.3)	(22.5)	(23.5)	(21.3)	(9.6)	(24.1)	(32.1)	(32.6)	(28.3)
Colombia	MXCO	1,001	1,278	986	0.5	(2.6)	(5.9)	(7.9)	(8.5)	(2.7)	(11.7)	(15.7)	(10.0)	(16.1)
Peru	MXPE	1,276	1,904	1,204	2.1	(13.9)	(1.5)	(29.8)	(22.0)	2.1	(13.9)	(1.5)	(29.8)	(22.0)
MSCI Indices - CEEMEA														
South Africa	MSEUSSA	468	626	452	(3.6)	(4.3)	(5.4)	(7.3)	(1.3)	(5.9)	(15.6)	(20.6)	(23.5)	(15.1)
Russia	MXRU	635	1,129	634	(8.8)	(18.6)	(29.1)	(27.9)	(18.4)	(10.8)	(26.1)	(38.0)	(31.9)	(23.9)
Israel	MXIL	187	288	185	(2.4)	(11.9)	(22.0)	(30.3)	(28.9)	(2.7)	(14.9)	(28.7)	(33.8)	(31.5)
Turkey	MSEUSTK	445	763	412	(3.1)	4.2	(8.7)	(13.5)	(15.7)	(4.2)	(2.2)	(20.6)	(28.8)	(35.5)
Poland	MSEUSPO	712	1,210	689	(1.8)	(8.8)	(23.9)	(21.9)	(19.4)	(2.8)	(18.2)	(36.9)	(29.9)	(30.0)
Hungary	MSEUSHG	453	901	421	5.3	(11.3)	(29.8)	(26.5)	(31.6)	0.2	(23.0)	(42.5)	(31.7)	(40.2)
Egypt	MSIUJEG	481	868	481	(3.5)	(13.4)	(25.2)	(42.6)	(40.8)	(3.5)	(13.5)	(25.2)	(44.1)	(43.3)
Czech Republic	MSEUSCZ	439	654	432	(1.1)	(9.0)	(17.7)	(13.4)	(13.6)	(4.0)	(16.0)	(25.7)	(12.9)	(17.7)
Morocco	MSIUMOR	410	504	409	(0.9)	(5.3)	(4.9)	(10.8)	(3.5)	(2.5)	(10.2)	(11.1)	(11.2)	(6.4)
Local Indices - Asia														
China SHANGHAI	SHCOMP	2,359	3,160	2,359	(1.4)	(6.7)	(16.2)	(16.0)	(11.2)	(1.3)	(6.7)	(15.2)	(13.3)	(6.9)
Korea KOSPI	KOSPI	1,667	2,231	1,645	(3.3)	(10.8)	(22.9)	(18.7)	(11.3)	(4.9)	(20.3)	(30.9)	(22.5)	(15.7)
Taiwan TAIEX	TWSE	6,989	9,221	6,877	(2.2)	(9.9)	(20.4)	(22.1)	(14.8)	(2.9)	(14.7)	(25.2)	(25.9)	(13.5)
India SENSEX	SENSEX	15,792	21,109	15,745	(4.0)	(6.1)	(15.7)	(23.0)	(22.6)	(5.1)	(12.9)	(24.2)	(30.2)	(30.0)
Malaysia KLSE	KLCI	1,376	1,597	1,311	0.3	(6.7)	(13.0)	(9.4)	(6.6)	(0.5)	(13.2)	(18.0)	(12.4)	(9.2)
Indonesia JSX	JCI	3,293	4,196	3,218	(6.3)	(14.3)	(16.1)	(11.1)	(8.3)	(6.5)	(17.9)	(19.6)	(10.1)	(8.1)
Thailand SET	SET	863	1,148	844	(7.4)	(19.0)	(20.5)	(16.5)	(11.0)	(8.0)	(22.3)	(22.3)	(19.3)	(14.0)
Local Indices - Latin America														
Brazil Bovespa	IBOV	51,014	73,103	47,793	(4.2)	(9.8)	(19.1)	(26.4)	(28.4)	(5.5)	(19.9)	(31.2)	(33.6)	(34.6)
Mexico IPC/Bolsa	MEXBOL	33,000	38,877	31,562	(1.3)	(6.1)	(9.9)	(14.4)	(3.7)	(3.4)	(15.1)	(23.5)	(22.8)	(11.9)
Chile IPSA	IGPA	3,699	5,041	3,606	(5.2)	(13.0)	(23.1)	(24.9)	(22.5)	(9.4)	(24.6)	(32.5)	(33.9)	(29.4)
Argentina Merval	MERVAL	2,309	3,701	2,212	(8.2)	(19.6)	(32.7)	(34.5)	(13.4)	(8.1)	(18.8)	(34.2)	(38.0)	(18.4)
Peru BVL General	IGBVL	17,543	23,802	17,150	(5.4)	(14.2)	(9.5)	(24.9)	(6.7)	(5.6)	(15.5)	(10.2)	(24.0)	(6.2)
Colombia IBB Gen	IGBC	12,694	16,279	12,519	(1.4)	(5.7)	(10.3)	(18.1)	(15.0)	(4.5)	(14.4)	(19.7)	(20.0)	(22.0)
Local Indices - CEEMEA														
South Africa JSE	JALSH	29,469	33,335	28,305	(2.9)	(3.4)	(8.6)	(8.3)	(0.3)	(5.2)	(14.8)	(23.4)	(24.3)	(14.3)
Russian RTS	RTSI\$	1,217	2,124	1,217	(11.0)	(26.6)	(37.7)	(31.2)	(22.4)	n/a	n/a	n/a	n/a	n/a
Israel TA 100	TA-100	940	1,248	898	(3.1)	(7.7)	(17.5)	(23.2)	(17.5)	(3.4)	(10.8)	(24.7)	(27.2)	(20.5)
Turkey ISE	XU100	57,472	70,786	48,759	(2.6)	3.6	(10.6)	(12.8)	(12.3)	(3.7)	(2.8)	(22.3)	(28.2)	(32.9)
Poland WIG 20	WIG20	2,145	2,933	2,090	(1.7)	(9.1)	(23.8)	(21.8)	(19.6)	(2.8)	(18.5)	(36.8)	(29.8)	(30.2)
Hungary BUX	BUX	16,458	24,531	14,623	5.4	(9.7)	(26.5)	(22.8)	(29.0)	0.4	(21.6)	(39.7)	(28.3)	(37.9)
Czech PX-50	PX	899	1,276	864	(3.7)	(12.2)	(27.0)	(26.6)	(20.4)	(6.6)	(18.9)	(34.1)	(26.1)	(24.1)

Source: MSCI, FactSet and Citi Investment Research and Analysis

Valuations

Figure 6. MSCI GEMs Valuations

30 Sep 2011	Free MC US\$bn	Wgt %	P/E			EPS YoY %			P/B	ROE	Div Yld	EV/	
			11E	12E	13E	11E	12E	13E				Sales 10	EBITDA 10
Global	24,146	100	10.8	9.6	8.7	13.9	12.8	10.5	1.46	13.4	3.2	1.5	7.7
Developed World	21,057	87.2	11.0	9.8	8.9	13.6	13.0	10.3	1.46	13.1	3.1	1.5	7.8
Emerging World	3,089	12.8	9.5	8.6	7.7	15.9	11.2	11.8	1.46	15.2	3.4	1.5	7.1
Em Asia	1,833	7.6	10.4	9.1	8.1	10.1	14.6	14.2	1.53	14.7	3.1	1.2	7.2
China	519	2.1	8.4	7.4	6.7	17.8	13.7	13.5	1.39	16.5	3.9	1.3	7.2
Korea	453	1.9	8.6	7.9	7.0	11.7	11.5	13.6	1.17	13.5	1.6	0.8	5.9
Taiwan	355	1.5	13.8	11.6	9.8	-13.6	22.9	18.3	1.62	11.3	4.7	1.4	7.4
India	234	1.0	14.6	12.5	10.9	16.5	16.5	14.8	2.36	16.2	1.5	2.2	10.5
Malaysia	104	0.4	14.4	12.7	11.5	10.5	13.4	10.2	1.96	13.6	3.7	2.4	9.7
Indonesia	92	0.4	13.6	11.7	10.0	20.4	16.8	16.3	3.30	24.1	2.8	2.6	8.3
Thailand	56	0.2	9.7	8.7	8.0	21.8	11.3	9.6	1.75	18.0	4.3	1.2	7.3
Philippines	20	0.1	14.4	12.8	11.7	2.8	12.4	10.0	2.39	16.6	3.1	2.8	8.8
Latin America	690	2.9	9.8	9.0	8.2	19.2	8.8	8.6	1.57	15.4	3.7	2.2	7.3
Brazil	450	1.9	8.3	7.7	7.3	18.4	6.7	6.8	1.26	15.3	4.2	2.1	6.8
Mexico	143	0.6	15.8	13.2	11.6	24.4	17.2	14.0	2.32	15.0	2.2	2.3	8.4
Chile	50	0.2	14.4	12.4	10.1	12.1	16.6	21.6	2.11	14.2	3.0	2.8	10.8
Colombia	29	0.1	17.9	15.6	12.3	16.0	14.8	7.3	2.47	17.0	3.1	3.8	12.2
Peru	18	0.1	10.0	9.2	8.3	37.1	8.9	10.4	2.89	29.0	4.1	9.6	18.2
CEEMEA	566	2.3	7.4	7.0	6.4	27.9	5.6	8.7	1.20	16.2	3.8	1.5	6.2
South Africa	239	1.0	11.8	9.6	8.7	24.5	23.0	9.2	2.06	17.4	3.8	1.6	8.8
Russia	196	0.8	4.7	4.9	4.4	35.6	-2.8	9.1	0.75	16.4	3.1	1.4	4.8
Poland	47	0.19	8.0	8.2	8.4	36.0	-3.3	-1.7	1.16	14.6	6.0	1.7	5.6
Turkey	47	0.19	10.5	9.3	8.1	-2.6	12.9	14.8	1.59	15.2	2.8	1.5	8.0
Czech Republic	11	0.05	10.2	9.5	9.1	-11.3	6.8	5.2	1.67	16.4	7.4	2.6	5.4
Egypt	11	0.04	8.1	7.2	6.7	22.5	17.7	6.9	1.03	12.2	5.0	2.4	7.5
Hungary	9	0.04	7.0	6.2	5.3	9.7	13.6	15.9	0.79	11.3	4.6	1.1	6.8
Morocco	6	0.02	14.1	12.9	11.7	2.6	9.2	10.5	4.08	27.8	5.3	4.4	7.6
GEMs Sectors													
Energy	427	13.8	6.3	6.2	5.9	24.8	-0.1	6.0	0.95	15.5	3.6	1.2	6.1
Materials	431	13.9	7.8	7.1	6.7	40.9	10.0	5.4	1.40	17.9	4.1	2.0	8.0
Industrials	205	6.6	10.6	9.4	8.1	4.6	14.6	15.2	1.36	12.7	2.5	1.2	8.6
Consumer Disc.	251	8.1	10.5	9.3	8.4	26.3	14.0	14.1	1.97	19.1	1.8	1.1	8.1
Consumer Staples	232	7.5	19.3	16.6	14.4	1.2	16.3	16.1	3.20	16.5	2.5	1.8	11.6
Health Care	34	1.1	19.0	16.0	13.6	12.4	18.8	17.1	2.83	14.9	1.5	2.2	16.1
Financials	732	23.7	8.7	7.8	6.8	22.9	12.4	14.4	1.31	15.1	3.7	NA	NA
IT	398	12.9	14.4	11.2	9.3	-25.0	32.1	20.2	1.81	12.2	2.9	1.3	6.4
Telecoms	271	8.8	12.1	11.1	10.1	7.5	8.9	10.0	2.08	17.2	4.3	2.0	5.1
Utilities	108	3.5	11.6	10.2	8.5	2.5	14.0	18.8	0.92	8.1	4.0	2.0	7.6

Source: MSCI, IBES, FactSet and Citi Investment Research and Analysis

Macro Outlook

Figure 7. CIRA EM Macro Forecasts

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F	2010	2011F	2012F
Asia	9.2%	7.4%	7.3%	4.2%	5.8%	4.7%	4.0%	2.9%	2.4%	-2.4%	-2.7%	-2.4%
China	10.4	9.0	8.7	3.3	5.3	4.2	5.2	4.0	3.2	-1.6	-2.0	-2.0
India	8.5	7.6	8.2	8.6	9.5	7.5	-2.6	-3.0	-2.3	-8.1	-8.3	-7.1
Indonesia	6.1	6.5	6.3	5.1	5.0	6.2	0.9	0.1	-0.3	-0.6	-1.5	-1.5
Korea	6.2	3.7	3.9	3.0	4.5	3.5	2.8	1.4	1.1	1.4	0.5	0.7
Malaysia	7.2	4.7	5.0	1.7	3.2	2.7	11.8	10.5	9.0	-5.6	-5.4	-5.0
Philippines	7.6	3.7	3.9	3.8	4.3	3.5	4.2	3.5	3.0	-3.5	-1.6	-1.2
Taiwan	10.8	4.8	4.6	1.0	1.3	1.5	9.4	8.0	8.0	-3.2	-2.5	-2.4
Thailand	7.8	2.7	3.4	3.3	3.8	3.5	4.6	5.1	3.0	-2.0	-2.9	-2.0
Latin America	6.1%	4.5%	4.1%	7.5%	8.2%	7.5%	-1.0%	-1.0%	-1.4%	-2.6%	-2.3%	-2.0%
Brazil	7.5	3.7	4.0	5.0	6.6	5.7	-2.3	-2.3	-2.7	-2.5	-2.5	-2.5
Chile	5.2	6.3	4.5	1.4	3.2	2.9	1.9	-0.8	-1.8	-0.3	0.9	1.0
Colombia	4.3	5.0	4.8	2.3	3.3	3.5	-3.1	-2.2	-2.0	-3.6	-3.5	-3.2
Mexico	5.4	4.1	3.5	4.2	3.4	3.8	-0.5	-1.1	-2.6	-2.8	-2.5	-2.0
Peru	8.8	6.5	5.5	1.5	3.2	3.1	-1.5	-3.0	-3.6	-0.8	1.4	1.1
CEEMEA	4.6%	4.4%	2.3%	6.1%	6.8%	6.2%	-0.1%	-0.5%	-1.6%	-4.8%	-2.4%	-3.2%
Czech Republic	2.3	1.9	0.6	1.5	1.8	2.5	-3.7	-3.8	-3.5	-4.7	-4.5	-4.0
Hungary	1.2	1.4	1.1	4.7	3.9	4.8	2.1	3.0	4.3	-4.2	1.9	-3.0
Poland	3.8	3.8	1.9	2.7	4.2	3.0	-3.4	-4.4	-3.4	-7.9	-5.3	-4.5
Russia	4.0	4.0	2.5	6.9	8.8	7.2	4.8	4.8	1.9	-4.0	-1.4	-3.1
Turkey	9.0	7.3	2.5	8.6	6.0	7.5	-6.5	-9.6	-8.4	-3.6	-1.9	-2.7
Egypt	5.1	1.4	3.6	11.1	9.8	9.5	-2.1	-3.5	-3.0	-8.1	-9.0	-8.8
South Africa	2.8	3.0	2.8	4.1	5.0	5.8	-2.7	-3.3	-4.7	-5.2	-5.6	-5.6
Total	7.3%	6.1%	5.6%	5.3%	6.5%	5.7%	2.5%	1.8%	1.3%	-2.6%	-2.3%	-2.4%

Note: Regional aggregates include select countries that are not in the MSCI universe.

Source: National Sources and Citi Investment Research and Analysis

The Emerging World: Map and Key Statistics

Figure 8. Member Countries of MSCI Emerging Markets Index



*Volume for China includes both Shanghai and Shenzhen exchanges.

Source: MSCI, Bloomberg, World Federation of Exchanges, FactSet and Citi Investment Research and Analysis

Discounting Recession

Q3 (-23.2%) was the fourth worst quarter for EM equities since 1990.

Emerging markets finally broke out of their ten-month trading range in early-August (Figure 9); unfortunately, the move was to the downside. Two bouts of prolonged heavy selling during the third quarter¹ have essentially wiped out all of the gains of the prior five quarters. The result was the worst quarter (-23.2%) for MSCI GEMs since the third and fourth quarters of 2008 and the fourth worst quarter for the asset class since 1990; at one point in early Q4, GEMs were down 28% year to date.

Figure 9. MSCI GEMs: Falling Out of the Trading Range



Source: MSCI, Datastream and Citi Investment Research and Analysis

Most of the realistic risks to the global economy are now priced into equity markets.

We have been very surprised by this poor performance by emerging market equities this year. As a result, our end-2011 target is far out towards the horizon. However, we strongly believe this is not the time to be making strategic *long-term* sales of EM equities. The risks out there in the global economy seem numerous and very challenging. However, while further downgrades to global growth (including in emerging markets) seem inevitable, the global economy still looks in far better shape than in the 'great recession' of 2008-9. We do expect a 'double-dip' back into recession in the Euro Area (with GDP contracting by 0.2% in 2012), but not in the US, where the economy is forecast to bounce along the bottom with growth in the 1.5-2% range to end-2012. While we now expect defaults over the next year (probably sooner rather than later) in several peripheral members of the Euro Area, we see these events as partly discounted; also, we expect sufficient funds to be made available to 'ring-fence' Italy and Spain from default risk and to re-capitalise the European banking system. **Meanwhile, we find EM valuations are pricing in recession, if not a return to 2008-9.**

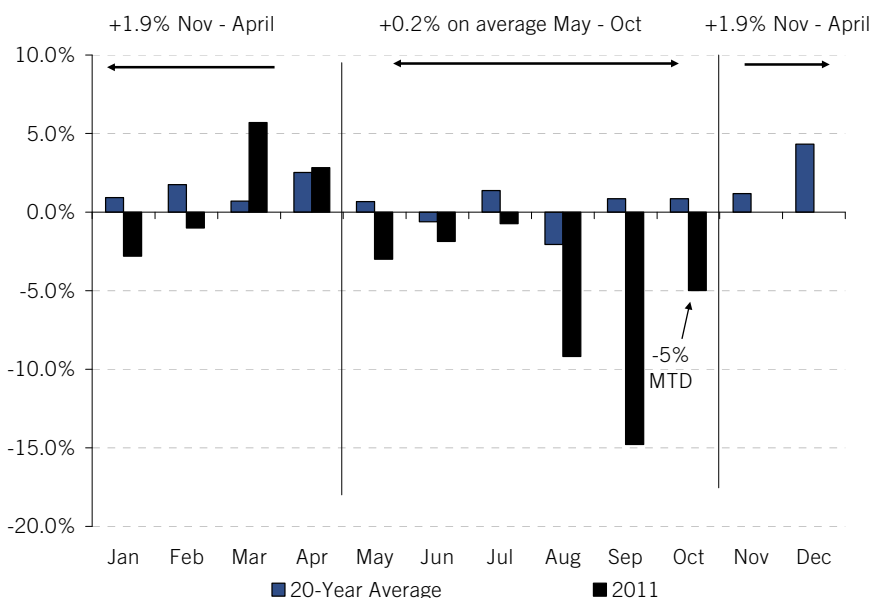
A year-end rally is typical and seems likely.

Therefore, we think investors should maintain a constructive outlook for EM equities over the next 12 months. However, the near term remains uncertain, with significant 'event risk'. The markets seem to be rushing headlong towards the 'denouement' of the EU debt crisis. Most likely any defaults in Europe will be 'facilitated' once the

¹ MSCI GEMs fell 16.5% from July 26 to August 22 and by 18% from September 1-26.

new support mechanisms are in place (a 'leveraged-up' EFSF [European Financial Stability Facility] and a European TARP-style program for the European banks). With these backstops, global equity markets may even rally once the expected defaults have occurred. Therefore, further volatility seems likely in emerging markets over the short term and until these European events fall into place. Beyond that, we will soon enter a more favorable time of the year for positive performance in EM equity markets (Figure 10); a 'year-end' rally seems very likely.

Figure 10. MSCI GEMs: Average Monthly Performances (Back to 1990)



Source: MSCI and Citi Investment Research and Analysis

The long-term case for emerging markets remains solid, in our view.

Most importantly, we find the long-term case for emerging markets looks solid at current levels. The following is a powerful combination, in our view:

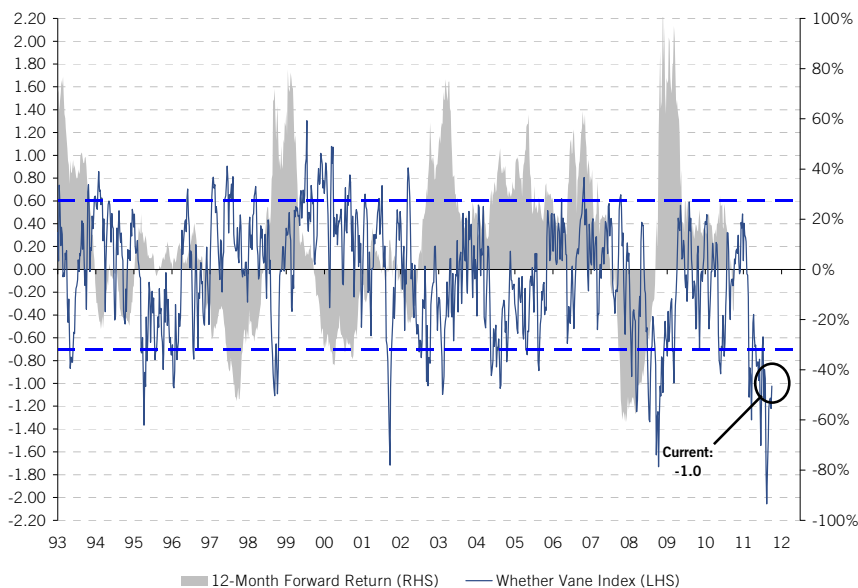
- With no new global recession expected, **GDP growth** in emerging markets is expected to stay strong (5.5-6% in 2011 and 2012) and far above DM growth;
- The EM **cost of capital** is close to historical lows; our MSCI-weighted EM debt yield is currently at 4.54% compared to a 10-year average of 5.67%;
- The global growth score, combined with a leveling-off of inflation in emerging markets, means that no EM central bank under our strategy coverage is expected to **raise interest rates** over the rest of 2011; and very few next year;
- **Equity valuations** are cheap at over halfway down from long-term averages to the post-Lehman lows at 8.7x forward earnings and 1.55x book value.

We push out our forecast of strong gains into 2012, in line with the projections of our new sentiment indicator.

Our extant year-end target for 2011 of 1,225 on MSCI GEMs looks far out of reach (+39% from end-Q3 levels); from a purely notional viewpoint, therefore, we cut this target to 1,000, which implies Q4 gains of 14% to year-end. However, much more interestingly, we now assume that the significant gains previously projected for 2011 are pushed out into next year. Based on our current forecasts for earnings growth in emerging markets of 16% in 2011, 11% in 2012 and 12% in 2013 and noting that EM equities were trading at the end of Q3 at 32% below their long-term average on a trailing PE basis (10.2x v. 15x), gains of 50%+ *could* be expected to the end of 2012, if the market returns to its long-term average multiple.

This may seem too ambitious, given the likelihood of further earnings downgrades; also, investors may not want to push valuations back to that long-term average (i.e. the equity risk premium rises). However, our key recommendation remains. Unless the world is about to relapse into a 2008-9 style recession or the Euro is set to completely collapse, the long-term outlook for EM equities looks positive. This result is borne out by the latest reading on our sentiment indicator – the Emerging Markets ‘Whether Vane’ – which remains deep in panic territory (Figure 11).

Figure 11. Emerging Markets Sentiment: “Whether Vane”



We define 'panic' when our indicator is at or below -0.7 standard deviations from the mean of the index and define 'euphoria' when our indicator is at or above +0.6 standard deviations from the mean.

Source: MSCI, Datastream, Bloomberg, EPFR and Citi Investment Research and Analysis

Skirting a Double-Dip

Our global growth forecast for 2012 is cut to 2.9% (from 3.8% over the past five months.)

As we see it, the prospects for the global economy continue to deteriorate, one of the key factors behind the recent heavy falls in global equity markets. The latest downgrades by our economists take Citi's global growth forecast for 2011 down to 3% and for 2012 to 2.9% (Figure 12); as recently as late-April, just before the peak in equity markets, global growth was forecast at 3.6% and 3.8% respectively in 2011 and 2012. With growth momentum only starting to fade in the past few months, the bulk of the downgrades are to 2012 (-90bp over just five months) as our economists build in the assumption that the global economy downshifts to a lower growth trajectory than previously assumed.

Double dip in Europe; weaker growth in DM economies.

We still do not forecast a return to 'recession' for the global economy at large, which we define as growth of less than 2% per annum. However, we do now expect a 'double-dip' in the Euro Area with a forecast GDP contraction of -0.2% in 2012². This relapse back into recession is tied to the uncertainty generated by the European debt crisis and, more directly, to the disruptive impact on economic activity of the forecast defaults by certain 'peripheral' economies over the next year or so.

² For 2012, negative growth is forecast for Greece (-4.9%), Portugal (-5.7%), Italy (-1%) and Spain (-0.7%); Germany is forecast to grow by 1% in 2012, down from 3% this year..

Figure 12. Key Global Macro Indicators

	GDP Growth (%)					CPI Inflation (%)		
	2008	2009	2010	2011F	2012F	2010	2011F	2012F
Global	1.5	(1.9)	4.1	3.0	2.9	2.7	4.0	3.2
Industrial Countries	0.1	(3.5)	2.6	1.4	1.3	1.4	2.6	1.7
Emerging Markets	5.2	1.4	7.3	6.1	5.6	5.3	6.5	5.7
US	0.4	(2.6)	3.0	1.7	1.9	1.6	3.2	1.9
Japan	(0.7)	(5.2)	4.0	(0.4)	2.1	(0.7)	-	(0.3)
Eurozone	0.6	(4.1)	1.7	1.6	(0.2)	1.6	2.7	1.9
Asia	6.2	5.8	9.2	7.4	7.3	4.2	5.8	4.7
Latin America	3.7	(2.2)	6.1	4.5	4.1	7.5	8.2	7.5
CEEMEA	4.1	(5.2)	4.6	4.4	2.3	6.1	6.8	6.2
China	9.0	9.1	10.4	9.0	8.7	3.3	5.3	4.2
Brazil	5.1	(0.2)	7.5	3.7	4.0	5.0	6.6	5.7
India	6.7	7.4	8.5	7.6	8.2	8.6	9.5	7.5
Russia	5.6	(7.9)	4.0	4.0	2.5	6.9	8.8	7.2
Korea	2.2	0.2	6.2	3.7	3.9	3.0	4.5	3.5
Taiwan	0.1	(1.9)	10.8	4.8	4.6	1.0	1.3	1.5
South Africa	3.1	(1.8)	2.8	3.0	2.8	4.1	5.0	5.8

Source: Citi Investment Research and Analysis

Meanwhile, although we have cut our US growth forecast again to 1.9% for next year, the picture, in our view, remains one of growth in a 1.5-2% range at least until the end of 2012 – poor, but not a recession. Meanwhile, given the major disruption to the Japanese economy in the first half of 2011, due to the effects of the earthquake, tsunami and nuclear accident in March, we expect higher growth next year at 2.1%, up from -0.4% this year. For developed economies as a whole, our forecasts remain low at 1.4% and 1.3% respectively; this is also a picture of very weak growth – but not a recession.

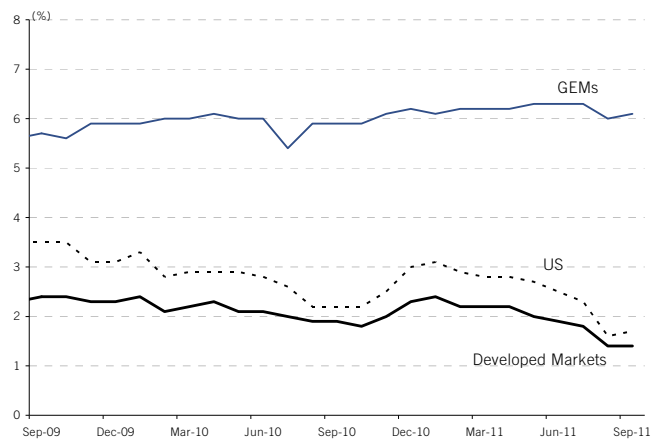
Emerging Markets

Our outlook for economic growth in the emerging markets is also slowing and our forecasts are being cut (see Figures 13-16). However, the pace of downgrades to DM growth forecasts remains much faster than for emerging markets. We now expect EM growth of 6.1% in 2011 (up slightly from 6.0% last month), although our 2012 forecast is cut to 5.6% from 5.8% previously. The result is that the EM-DM growth gap continues to widen to new highs for the cycle.

Within the emerging markets, the main trend we see is a significant downgrading of the economic outlook for Emerging Europe and South Africa. Our forecast for GDP growth in Russia in 2012 has been cut to 2.5% from 3.5% previously, due to the global financial turmoil, the prospect of sharply lower oil prices – we forecast Brent to average \$86/barrel next year – and political uncertainty following the reversal of the Putin/Medvedev tandem, which may signal a limited appetite for structural reforms³. Our GDP growth forecasts for Central Europe in 2012 have been cut to a range of 0.6% (Czech Republic) to 1.9% (Poland), due to the region's proximity to - and economic dependence on - the weakening Euro Area. We have also cut our forecast sharply for South Africa to 2.8% for 2012 from 3.5% previously, due mainly to the impact of global turmoil on local business sentiment.

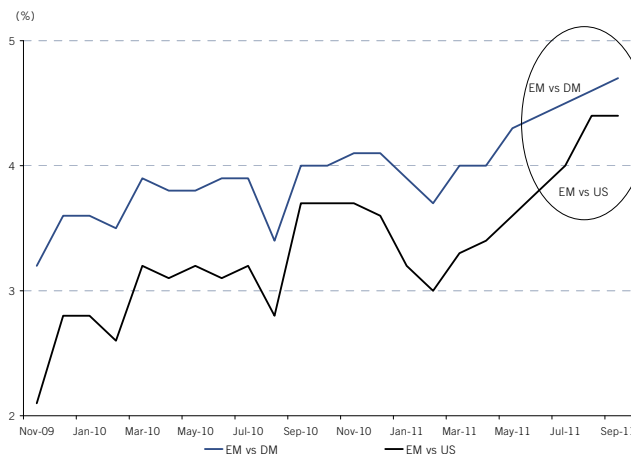
³ See *Russia Macro View*, "That Sinking Feeling", Elina Ribakova, September 29, 2011.

Figure 13. Evolution of Citi 2011 GDP Forecasts: Global



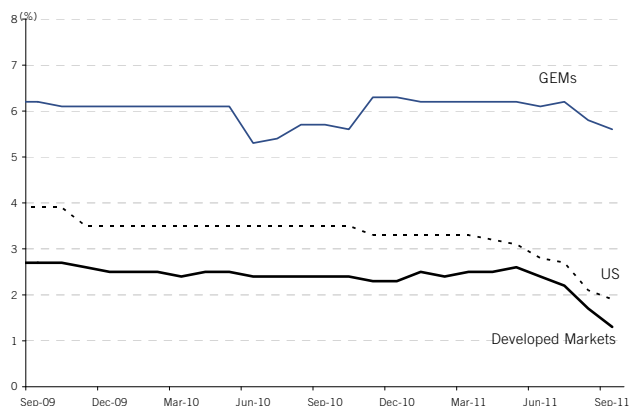
Source: Citi Investment Research and Analysis

Figure 14. Evolution of Citi 2011 GDP Forecasts: Differentials



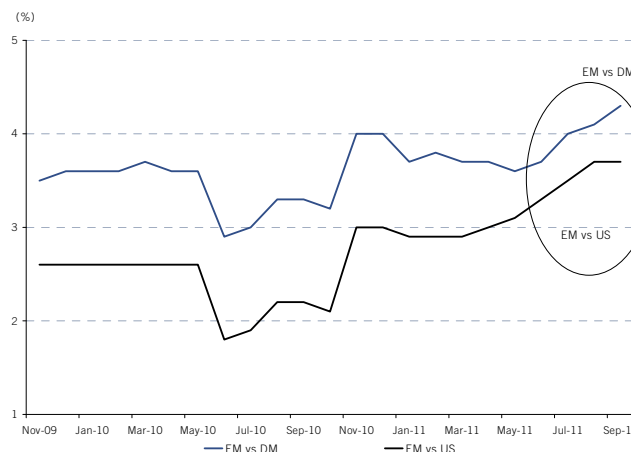
Source: Citi Investment Research and Analysis

Figure 15. Evolution of Citi 2012: GDP Forecasts: Global



Source: Citi Investment Research and Analysis

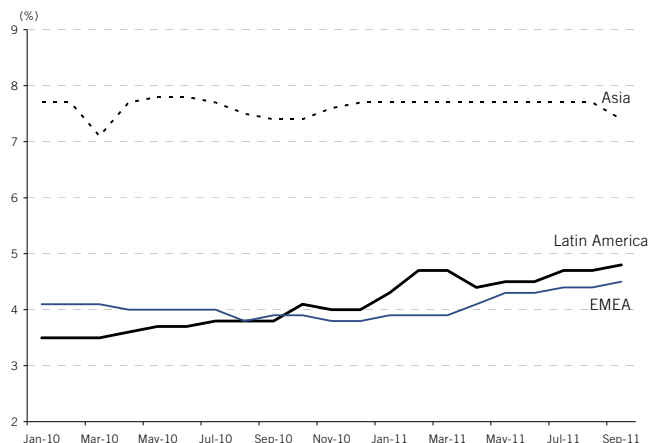
Figure 16. Evolution of Citi 2012 GDP Forecasts: Differentials



Source: Citi Investment Research and Analysis

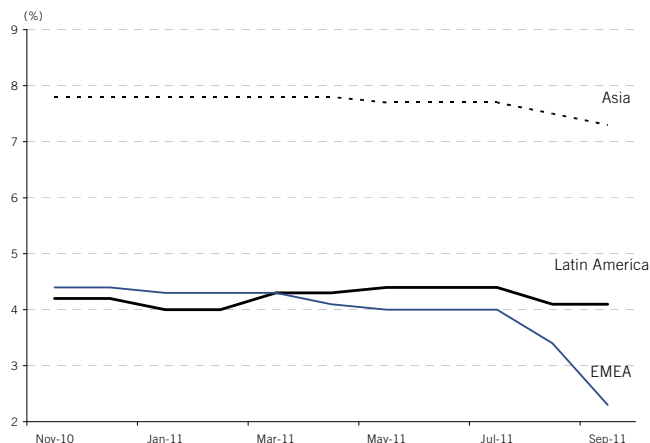
The effect of these downgrades is to widen even further the already fairly wide negative growth differential in CEEMEA versus other EM regions for 2012, although this differential is unchanged for 2011 (Figure 17-18). Despite isolated downgrades to growth forecasts elsewhere in the EM world, the other regional forecasts have barely moved. We continue to expect Asian growth of 7.4% in 2011, with a modest cut of 20bp for 2012 to 7.3% (due to weaker Chinese growth – below), while our growth forecasts in Latin America are unchanged at 4.5% and 4.1% in 2011 and 2012, respectively.

Figure 17. Evolution of Citi 2011: GDP Forecasts: GEMs Regions



Source: Citi Investment Research and Analysis

Figure 18. Evolution of Citi 2012 GDP Forecasts: GEMs Regions



Source: Citi Investment Research and Analysis

China

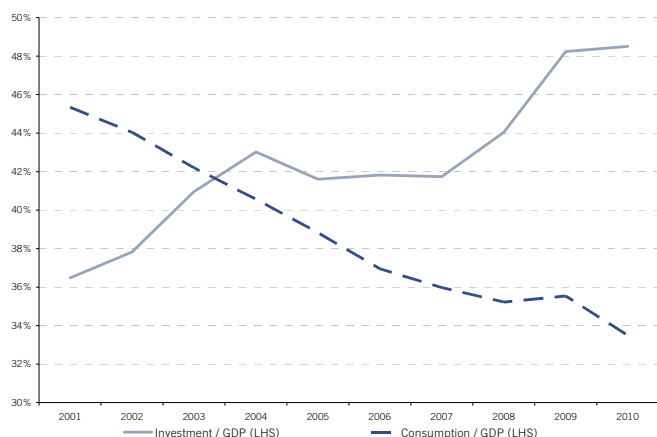
Most importantly, we turn to China, where our base case is that growth is slowing modestly, but remains solid; we have cut our GDP forecast for 2012 to 8.7% from 9% previously, following expected growth of 9% also in 2011. The apparent leveling-out of the Chinese PMI at just above 50 is support for this view of a controlled slowdown. The downgrade to Chinese growth for 2012 is premised on weaker exports to Europe – China's leading export market – given our forecast of multiple defaults in the Euro Area and a return to recession next year. Growth will also be constrained by the accumulated impact of monetary policy and property sector tightening. Our Chinese economist, Minggao Shen, expects quarterly growth to drop to around 8% in early-2012. The long-term challenge for the Chinese economy is to reverse over time the sharp rise over the past decade in the Investment/GDP ratio, which stood at 48% in 2010 (a ratio that has never been exceeded in any of the classic investment booms in the world)⁴. The 'flip-side of this challenge is to nurture a rebound in China's extraordinarily low ratio of Consumer Spending to GDP of just under 35% which has moved in the opposite direction to the Investment Ratio over the past decade (Figure 19 below).

Recent weakness in Chinese equities (-17% in September and -25.7% in Q3 compared to -23.2% for MSCI GEMs in Q3) has been caused, in terms of local factors, by growing fears of a credit collapse in China. This view has gained support from anecdotal evidence from within the real estate sector itself, but also from the collapse of money growth; on the M2 measure (Figure 25), growth is now down to around 14%, below the official 2011 target of 16%. Certainly, there has been massive credit expansion since late-2008, some of which has been 'off-balance sheet'.⁵ This has boosted the credit/GDP ratio in China to over 170% (as well as increasing the ratio of the debt of local governments (the fiscal vehicle for much of this expansion) to a not-entirely-comfortable 35% of GDP. The inevitable losses that will flow from this sort of hectic lending expansion will boost non-performing loans and will weaken bank's balance sheets.

⁴ See *Emerging Markets Macro and Strategy Outlook*, "Is China All That's Left?" David Lubin, September 29, 2011.

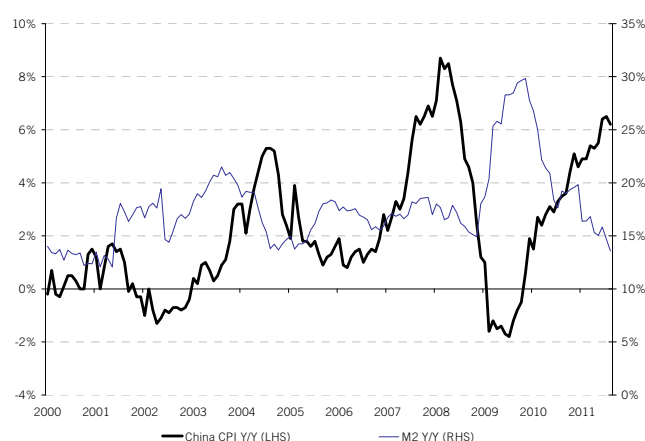
⁵ See *Asia Macro and Strategy Outlook* "Could Asia Be A Safe-Haven?", Johanna Chua, October 1, 2011.

Figure 19. China Share of GDP: Consumption and Investment



Source: National Sources, Haver and Citi Investment Research and Analysis

Figure 20. CPI and Money Supply (M2) and Growth (Y/Y)



Source: National Sources, Haver and Citi Investment Research and Analysis

However, despite the above concerns over deteriorating credit quality and the gentle slowdown that appears to be currently underway in China, there are, in the views of our economists, few signs of a hard landing in China (which may be defined as 5% growth). Our economists do not expect such a hard landing for a number of reasons:

- The debt crisis in China is not yet 'systemic' which, if this were to be true, could lead to widespread defaults. Leverage ratios across all sectors in China – especially the consumer sector – remain very low;
- With inflation set to fall to below 5% by the end of 2011, this should open up some room for modest easing of financial conditions (through both lower reserve requirements and eventually rate cuts);
- There is also room to ease fiscal policy, most likely through more spending on social housing and possibly on the safety net. The idea that China, after the fiscal binge of 2008-9, has no room for further fiscal easing is, in our view, just wrong;
- The goal of the Chinese authorities to re-balance the economy from investment to consumer spending cannot be achieved by a dramatic slowdown in growth. A hard landing will simply make consumers even more cautious about spending.

We make one final and important point. It should be remembered that the growth objective embedded in China's new Five Year Plan (5YP), which was launched this year, is for 'growth of, at least, 7.5%'. In short, the Chinese authorities will not mind if, over time, growth eases back to 7.5% or just above. The markets will just have to get used to this slower pace of growth, which is partly inevitable given that the average level of income per head is now around \$5,256; as a country's becomes more wealthy, it cannot grow at the pace it had done, when much poorer. However, a slowdown to the long-term goal of nearer to 7.5% is not a hard landing and should be ample support for the Chinese equity market.

EM Exposure to DM Weakness

As the Euro Area is now expected to slide back into mild recession next year and there are ongoing concerns over a 'double-dip' in the US, the growth worries in the emerging markets center mainly around country and regional linkages to developed economies. Figure 21 provides a more comprehensive version of our existing methodology by calculating the share of exports of all 21 EM countries that go to the US, Europe and Japan individually (although, to be fair, Japan looks a relative bright spot in 2012 compared to other parts of the developed world) and then in combination; the data are for 2010.

Figure 21. EM Exports to the US, EU, and Japan (As a % of Total Exports): 2010 vs 2000

	2010			2000	
	Exports to the US (% of Total Exports)	Exports to the EU (% of Total Exports)	Exports to Japan (% of Total Exports)	Exports to the US, EU and Japan (% of Total Exports)	Exports to the US, EU and Japan (% of Total Exports)
Czech Rep	2%	84%	0%	86%	89%
Mexico	80%	5%	0%	85%	93%
Poland	1%	81%	0%	83%	85%
Hungary	2%	77%	0%	80%	90%
Morocco	4%	57%	0%	62%	83%
Russia	3%	49%	3%	56%	65%
Colombia	40%	15%	0%	55%	66%
Turkey	3%	46%	0%	50%	68%
China	18%	20%	2%	40%	54%
S Africa	10%	27%	2%	39%	41%
Peru	16%	20%	1%	38%	55%
Egypt	7%	30%	0%	37%	63%
Brazil	10%	21%	0%	31%	53%
Chile	10%	17%	4%	31%	54%
India	11%	19%	0%	30%	50%
Malaysia	10%	10%	9%	29%	48%
Philippines	13%	12%	4%	29%	63%
Thailand	10%	11%	6%	28%	52%
Korea	11%	11%	3%	25%	48%
Taiwan	12%	8%	4%	24%	47%
Indonesia	9%	11%	4%	24%	51%
Average	16%	24%	6%		

Source: Haver, National Sources, Citi Investment Research and Analysis

The key results we draw from this fascinating table are as follows:

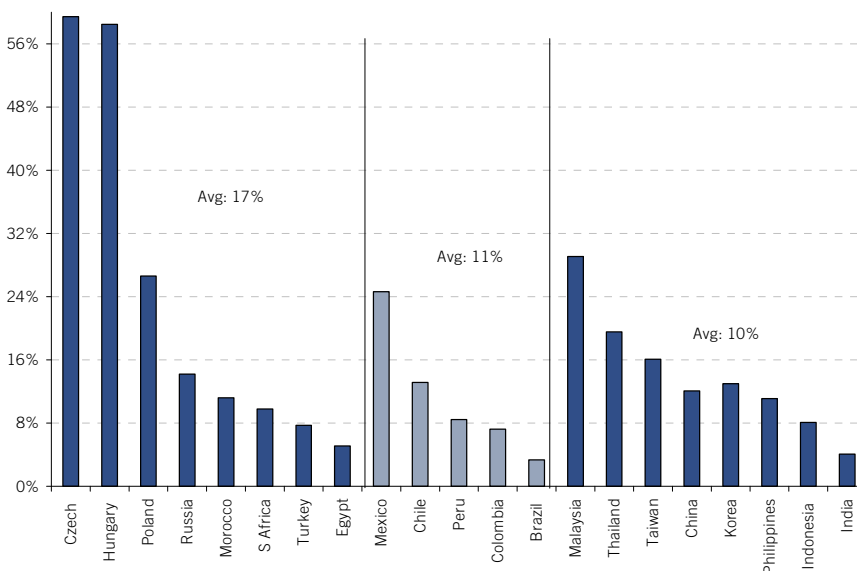
- In their totality, emerging markets have more exposure to the EU⁶ than to any other developed region; 24% of total of EM exports go to Europe, compared to 16% to the US and just 6% to Japan. To the extent that Europe is the current growth worry, this result is a concern for emerging markets;
- The emerging markets with the largest exposure of exports to DMs as a whole are the CE3 (all above 80% of total exports) and Mexico (85%).
- The emerging markets with the largest exposure to the EU are all in EMEA, ranging from CE3 (77% to 85%) through Russia (49%) and Turkey (46%) to South Africa (27%). The CE3 countries are clearly the most vulnerable to a recession in Europe. The biggest export exposures to the EU from outside EMEA are found in Brazil (21%) and China and Peru (20% each);

⁶ There is some overlap here, as the CE3 countries are part of the EU.

- Mexico sends 80% of its exports to the US and so remains highly vulnerable to any further US economic weakness;
- The countries with the smallest export exposure to developed economies (as defined in the table) are all in Asia, with shares of 24-30% of total exports for Indonesia, Taiwan, Korea, Thailand, the Philippines, Malaysia and India;
- The four BRICS are all neatly positioned towards the middle of the pack. Russia is the most exposed in terms of its exports to developed countries at 56% (of which most – 49% - go to Europe), followed by China which sends 40% of its exports to DM countries (dominated by Europe at 20% and the US at 18%). Both Brazil (31% of total exports going to DM) and India (30%) send around two-thirds of their exports to Europe and around one-third to the US; Interestingly, all four BRICS have more export exposure to Europe than to the US;
- Flipping this the other way, the emerging markets to have more exposure to the US than to Europe are Mexico (80% v. 5%), Colombia (40% v. 15%), Taiwan (12% v. 8%) and the Philippines (13% v. 12%). These countries should be slightly more defensive in a world where Europe is in recession but the US is not.

We make two other important conclusions from this data. First, the final column of Figure 21 shows the same data for 2000. **For every country in the table, export exposure to developed economies is lower than it was ten years ago.** Some of the declines are large. The shares of exports to DM of the Philippines, Taiwan and Indonesia have halved or more since 2000. The declines for the BRICS range from 22% for Brazil (to 31%) to 9% for Russia (to 56%); the share for China was 40% in 2010 down from 56% in 2000. **In short, emerging markets cannot decouple completely from a weak developed world. However, as intra-EM trade increases steadily over time, emerging market countries are becoming slowly less vulnerable over time to weak growth in the developed world.**

Figure 22. EM Exports to the US, EU and Japan (As a % of GDP)



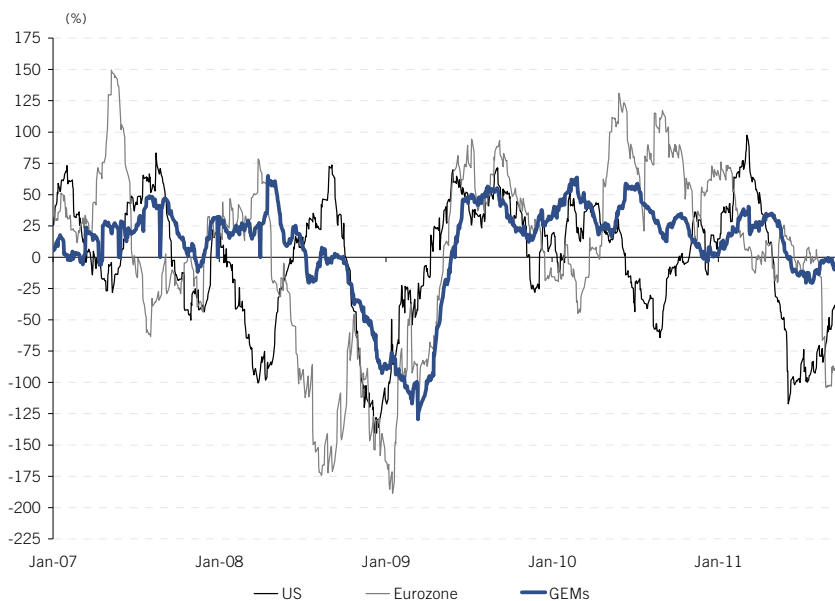
Source: Haver, National Sources and Citi Investment Research and Analysis

Secondly, in Figure 22 (above), we adjust the same aggregate export share data for the openness of an economy, i.e. the ratio of exports to GDP. Again, this shows that, as a region, EMEA (where exports to the DM account for a sizeable 17% of GDP on average) is most exposed to weakness in developed economies; this compares to weights of 11% for Latin America and 10% for Asia. By country, the chart confirms that the CE3 (especially the Czech Republic and Hungary with around 60% of GDP being exports to DMs) are most vulnerable to weakness in developed economies, followed by Malaysia, Mexico, Thailand and Taiwan. The lowest exposures relative to GDP are for Brazil (3%) and India (4%), underlining, above all, the closed nature of those economies.

Summing Up - Economic Surprise Indices

It is apparent that equity markets are worrying about the world economy – notably about Europe (which we do see falling back into recession), the US (which we do not) and China (which we do not expect to suffer a ‘hard landing’). Rolled into the worries over Europe are attendant concerns for a major banking crisis in Europe, which may spread beyond the borders of the EU. The talk is of a return to 2008-9. This would seem to be a nasty enough cocktail that fully warrants the current level of investor pessimism. However, as a way to sum up the current macro background to emerging market equities for Q4, Figure 23 shows that a set of top-level Economic Surprise Indices – for the US, the Euro Area and for GEMs – actually all have a positive slope currently (and all look far better than in 2008), albeit the upturns in the indices for the US and Europe are off a very low base.

Figure 23. Citi Economic Surprise Indices: GEMs, US and Eurozone



Source: Bloomberg and Citi Investment Research and Analysis

In short, our work shows that the macro picture – especially in emerging markets – does not warrant the current degree of investor panic in equity markets, in our view. If this panic is occurring, it must be because the market believes either that: i) the macro data will turn yet more negative; or ii) there is something else to warrant such pessimism. That ‘other thing’ is the EU debt crisis, in our view; all roads lead to Brussels or Frankfurt currently. This is why if this crisis were to collapse into a full-fledged challenge to the existence of the Euro itself, it would be very negative for

equity markets even from current depressed levels. Alternatively, a controlled, planned 'solution' to this crisis (even if only for a time) should allow equity markets to rebound strongly over the next several months; the latter is our base case.

Again, 2008 Again?

For investors to compare current events with 2007-8 (the global financial crisis and a savage bear market, during which MSCI GEMs fell by 66%) and with 2009 (the global economy contracted by around 2% and had its worst year since the 1930s) is entirely logical. Several members of the global strategy team at Citi have done comparisons of this sort⁷, as we did in our last report⁸. As argued so far in this report, these comparisons, at least in terms of the global macro outlook, look far too pessimistic to us.

However, the financial asset performance comparisons with 2008 are becoming much closer and, therefore, worrying, at least for the near term. We summarize these briefly in the charts to follow:

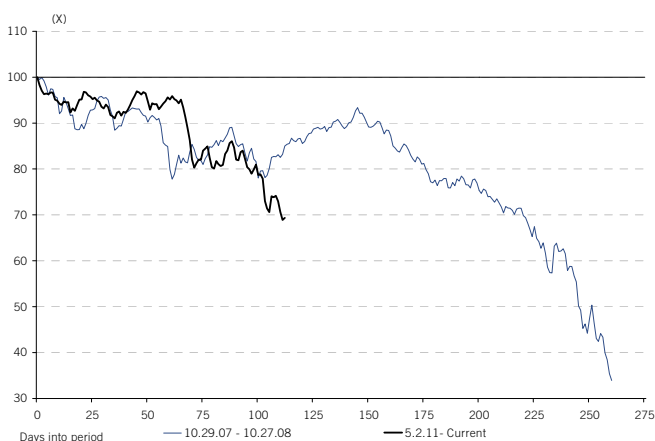
- **Equities.** Since the peak of the markets this year (on May 2), EM equities have fallen by 31%, developed markets by 21% and MSCI ACWorld by 22.5%. These declines, while painful and in bear market territory (>20%) pale by comparison with the bear market of 2007-8, when MSCI GEMs fell by 66% and ACWorld by 60% (Figures 24-25); we continue to expect nothing like this scale of losses in the current bear market. However, the interest in doing the comps with that earlier period has been heightened by the remarkable similarity that is building up between equity performances in calendar 2011 with 2008 (Figures 26-28)⁹. From this time in 2008, emerging markets fell a further 39% in little more than three weeks before bottoming out in late-October 2008. The comps with equities in 2008 are there and are disturbing;

Figure 24. MSCI AC World Index (10.31.07 – 3.9.09; 5.2.11 – Current)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 25. MSCI GEMs (10.29.07 – 10.27.08; 5.2.11 - Current)



Source: MSCI, Datastream and Citi Investment Research and Analysis

⁷ See Global Equity Strategist, "Riding the Rollercoaster", Robert Buckland, September 28, 2011; and CEEMEA Strategy Notebook, "Another *Annus Horribilis*? Benchmarking Today Versus 2008", Andrew Howell, September 29, 2011.

⁸ See *Global Emerging Markets Strategy*, "Carried Out", Geoffrey Dennis, September, 27, 2011.

⁹ This went as far as the bizarre coincidence that the S&P Composite closed on October 3, 2011 at exactly the same level (1099.23) as on the same day in 2008; in the latter case, the index eventually fell by a further 38% to a low of 676.5 in early-March 2009.

Figure 26. MSCI GEMs: 2008 v 2011



Source: MSCI, Datastream and CIRA

Figure 27. MSCI AC World (Global): 2008 v 2011



Source: MSCI, Datastream and CIRA

Figure 28. S&P 500 Composite: 2008 v 2011

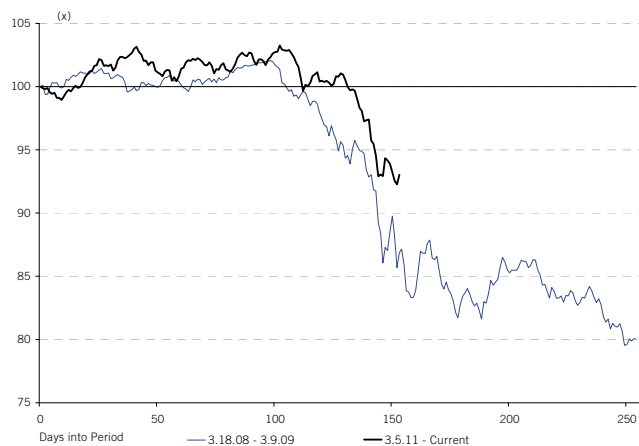


Source: MSCI, Datastream and CIRA

■ **Currencies.** During the global financial crisis, the dollar's TWI rose by 21% from mid-March 2008 to mid-March 2009; our EM currency proxy fell by 19.4% (Figure 29). Therefore, the flight to quality into the dollar (and the equivalent unwinding of the 'carry trade' in EM currencies) began five months after the equity bear market began (October 2007) and had its period of greatest severity even after that (from July 2008). In the current bear market, there has been a similar delayed reaction in EM currencies, which only began to fall sharply (and the dollar to rally) in late-July, nearly three months after equity markets peaked. Since then, the dollar TWI is up by 6% and our EM Currency Proxy has fallen by almost 10%. The pattern of EM currency performance has been similar to 2008; a full comparison suggests that further sharp falls may occur;

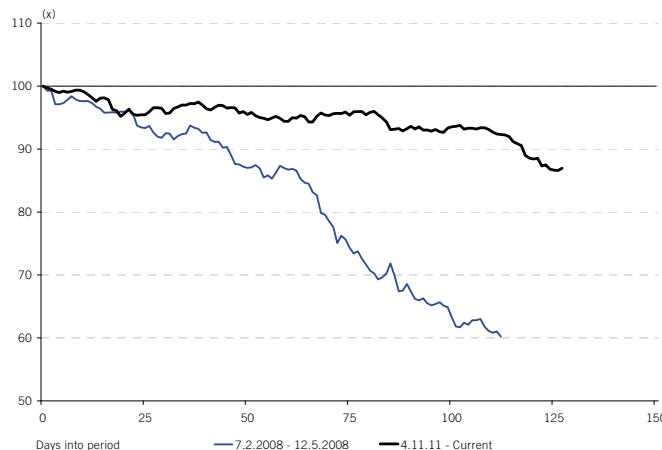
■ **Commodities.** The same is true for commodities. In 2007-8, commodity prices only began to fall sharply in mid-2008, some eight months after the start of the equity bear market. When this sell-off began, prices fell precipitously; the CRB index collapsed by 40% to its cycle low in early-December (Figure 30)¹⁰. This time around, commodity prices peaked (mid-April 2011) just before equity markets rolled over. However, they fell only gently at first (down 4% for the CRB index by early-August) and then more sharply since then (-9.4%). The greater resilience of commodity prices in 2011 suggests a full comparison with 2008 is not valid, unless, that is, commodity prices are 'the next shoe to drop';

Figure 29. EM Currency Proxy (3.18.08 - 3.9.09; 3.5.11 - Current)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 30. CRB Spot (7.2.08 - 12.5.08; 4.11.11 - Current)



Source: MSCI, Datastream and Citi Investment Research and Analysis

¹⁰ Copper fell by 66% (from \$4.04/pound) and oil prices (WTI) by 71% in just five months.

- **Volatility.** As with equities themselves, the classic measure of equity market volatility has reacted earlier to the current bad news than it did in the bear market of 2007-9. (Here, we use for comparison the dates of the S&P Composite peaks and troughs.) The VIX has jumped from an early-May 2011 low of 16 to 38 currently, compared to around a level of 30 at the equivalent stage of the 2007-9 bear market (Figure 31). However, again, this was the relative calm before the storm; the VIX eventually shot up to an all-time high of 80 in late-October 2008. If 2008 is the parallel, there is more upside to go in the VIX;
- **Bonds.** In the current flight-to-quality move in financial asset prices, US Treasury yields have behaved differently to 2007-8 as they have already fallen below the post-Lehman lows. In the earlier period, the main rally in US bonds occurred right at the end of the equity bear market after the collapse of Lehman itself; the US 10-year yield fell from 4% in October 2008 to a low of 2.1% in December 2008 (Figure 32). Similarly, during the current equity bear market, US yields were still hovering around 3% in late-July before crashing to their recent low of 1.72%.

Figure 31. CBOE SPX Volatility - VIX (10.31.07 – 3.9.09; 5.2.11 – Current)



Source: BOE, Datastream and Citi Investment Research and Analysis

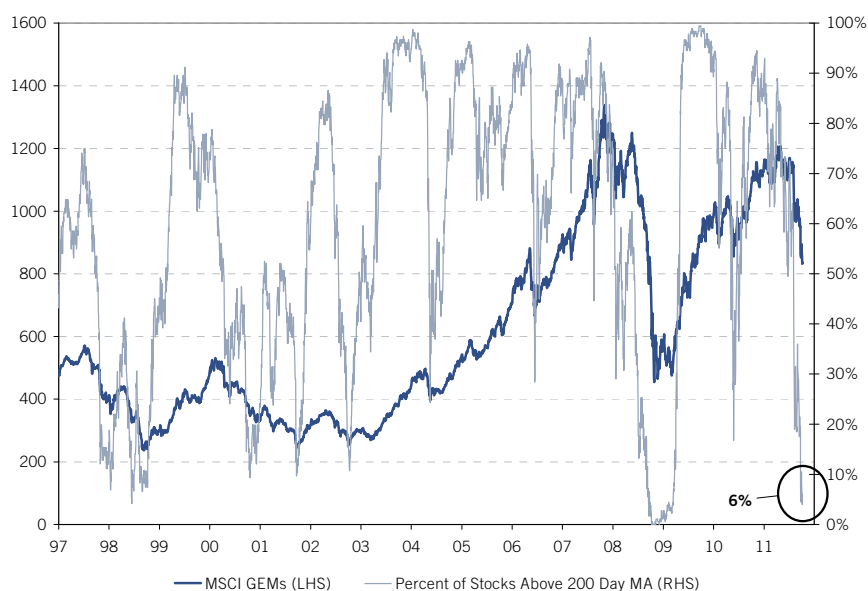
Figure 32. US- 10 Year Yields (7.2.08- 12.18.08; 4.11.11- Current)



Source: Datastream and Citi Investment Research and Analysis

- **Oversold/Over-bought Stocks.** A classic indicator of the underlying weakness of markets is a concentration measure of the proportion that are trading above their 200-day moving averages. This ratio for MSCI GEMs stocks is now down to just 6% (from a high earlier this year of 93%), as shown in Figure 33. This is a historically very low level for this ratio and is not far above the record low of effectively zero reached in the 2007-8 bear market; it also compares closely to the pre-2008 low of 4% at the trough of the bear market in 1998 during the Russian crisis. By this measure, therefore, equity markets appear to be discounting almost as much bad news as they did at the bottom of the bear market in late-2008.

Figure 33. MSCI GEMs Percentage of Stocks Trading Above 200 Day Moving Average



Source: MSCI, Factset and Citi Investment Research and Analysis

The conclusions of this section are that, apart from US Treasury yields and the concentration measure of equity performance, financial asset prices appear to be building a pattern similar to 2007-8 but still have far to go to the lows of 2008. If this really is a repeat of that earlier period – and the macro data suggest this is not the case – there is more risk aversion and much weaker equities, commodities and EM currencies still to come. This is not our view. A recent report by our US Strategist, Tobias Levkovich¹¹, makes a slightly different point arguing (in terms of the US market) that there are some major differences still with 2008, including: i) much weaker investor sentiment; ii) better credit conditions; iii) earnings downgrades have come through quicker; iv) lower valuations; and v) better readings on Citi Economic Surprises Indices (as we noted above). This is a bullish stance, in line with our view.

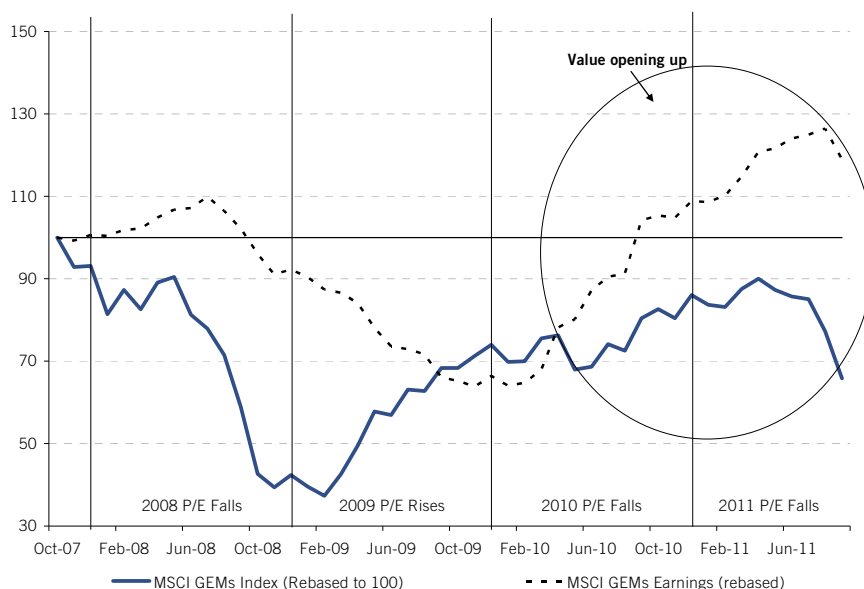
Earnings Downgrades and Valuations: What's Priced In?

The solid rebound in corporate earnings in the emerging markets stalled out in September to reflect the slowdown in global growth and the pressure on margins in EM from rising costs. Having rebounded by an impressive 97% from their January 2010 low (after a prior decline of 42% during the Global Financial Crisis), EM earnings peaked in August and declined by 6% last month. This pullback in trailing earnings – although only modest so far – reflects a fear that significant earnings downgrades are ahead, making investors very skeptical about what appear to be very attractive valuations. Figure 34 shows the widening gap between the E and the P of the trailing P/E ratio since the beginning of 2010. Even now that earnings have rolled over, this gap is widening still as markets have fallen further¹².

¹¹ *US Equity Strategy*, "Five Degrees of Separation", Tobias Levkovich, October 4, 2011.

¹² Ironically, it made sense to sell the markets (in January 2010) when earnings peaked; perhaps, now that earnings are rolling over, investors should buy the markets!

Figure 34. MSCI GEMs Index and Trailing Earnings (End- Month)



Source: MSCI, Datastream and Citi Investment Research and Analysis

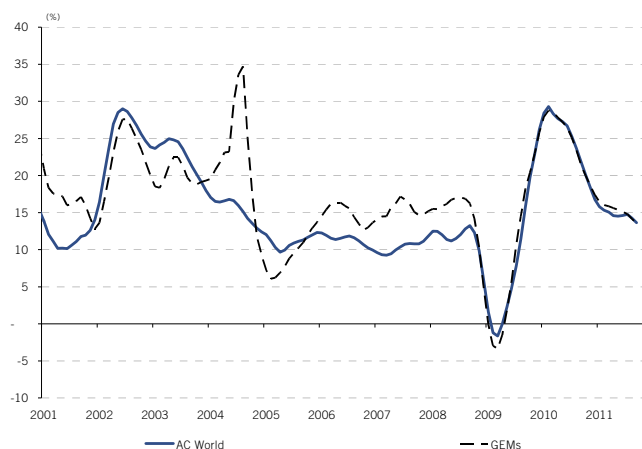
Earnings forecasts in emerging markets are also now easing. However, the pattern still appears to be of only *modest* erosion of the earnings picture (historical and forecast) rather than the sort of collapse that occurred in 2008-9. Consensus earnings forecasts for 2011 and 2012 have slipped to 15.9% and 11.2% respectively at present from 16.5% and 14.1% at the start of the year; however, this means that for the two years combined, EPS forecasts have only fallen by 400bp since the start of 2011 (a two-year average growth rate of 13.6% currently, down from 15.3%).

The same pattern is reflected in the 12-month forward consensus EPS growth rate, which now stands just under 15%, down from around 20% at the beginning of this year and a peak of 30% in early-2010 (Figure 35). As we have noted before, it is inevitable that the 12-month forward earnings momentum will fade as we transition gradually from a higher growth year (2011) to a lower growth year (2012). This weaker EPS growth forecast is apparent in all three regions (Figure 36), although earnings momentum over the past few months has held up better in Asia than in Latin America and CEEMEA.

These weaker earnings trends are also picked up in our Upgrades/Downgrades ratio (Figure 37)¹³, which has now dropped to around 20% (although it did tick up again slightly later month). This is the lowest value for this ratio since April 2009 and, to be fair, its downward path looks very reminiscent of that traced out in the initial phase of the earnings recession of 2008-9; however, there is little sign, as yet, that the earnings momentum in emerging markets will weaken sufficiently to translate into an Earnings Upgrades/Downgrades ratio of well over 40% as occurred at that time. All regions have a negative ratio (Figure 38), although the ratios for Latin America and EMEA are weaker (-25/30%) than that of Asia (-17%), while the ratios for both Asia and EMEA have shown a tendency to bounce recently.

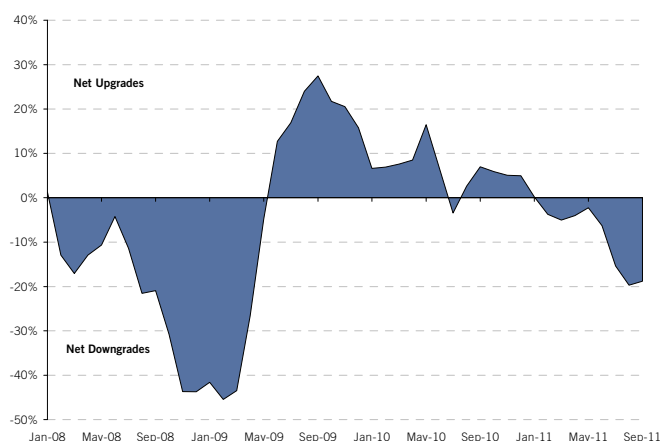
¹³ This is measured as the number of estimate upgrades for the current year – the number of downgrades divided by the total estimate changes.

Figure 35. IBES 12-Month Forward EPS Growth Forecasts: Global



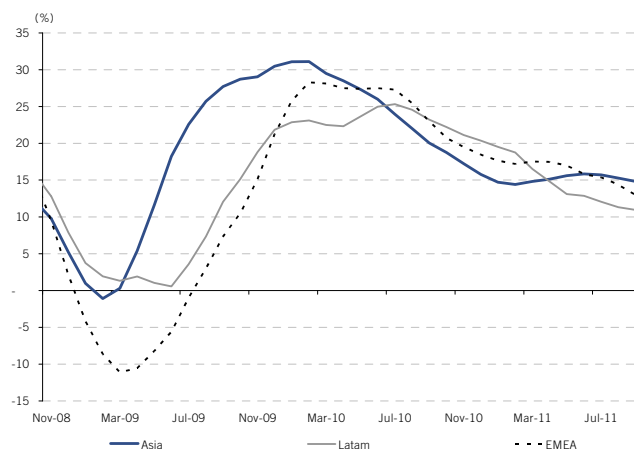
Source: MSCI, IBES, JP Morgan, Datastream and CIRA Analysis

Figure 37. GEMs: Upgrades/ Downgrades Ratio



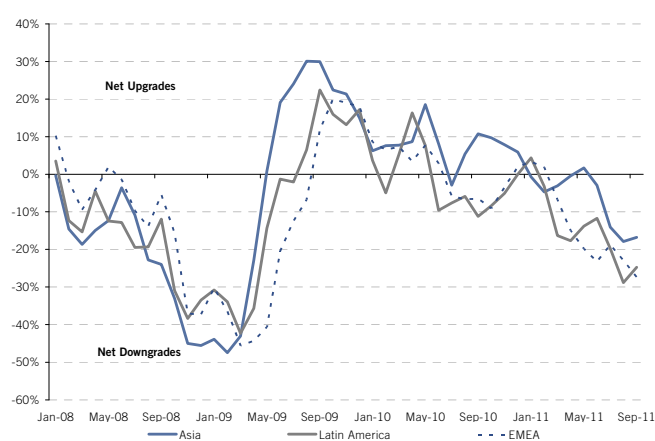
Source: MSCI, IBES, JP Morgan, Datastream and CIRA Analysis

Figure 36. IBES 12-Month Forward EPS Growth Forecast: GEMs Regions



Source: MSCI, IBES, JP Morgan, Datastream and CIRA Analysis

Figure 38. GEMs Regions: Upgrades/ Downgrades Ratios



Source: MSCI, IBES, JP Morgan, Datastream and CIRA Analysis

The worry, as noted above, is that investors do not give much credibility to (cheap) valuation metrics currently as they are fearful that earnings estimates remain too high and have further to fall. Certainly, we expect some further downgrades to corporate earnings in EM over the near-term but, how just bad will these earnings forecasts really become? Currently, we still expect Nominal GDP growth of 12.6% in emerging markets in 2011 and 11.3% in 2012. This is a good base for solid EPS growth even if some further modest downgrades are likely.

Since 1995, there have been three earnings recessions of any scale in the emerging markets (Figure 39): a 65% drop in EPS in 1997-8 (Asian and Russian crises), -18% in 2001 (recession after the collapse of the tech bubble) and -42% in 2008-9. Currently, our calculations suggest that EM equity markets price in an earnings decline of 24-32% (as discussed in the valuation section below). With emerging markets not facing the sort of enormous crises that occurred in 1997-8, this early period is not a useful parallel. Therefore, an earnings decline which equaled the average of the 2001 and 2007-8 recessions (i.e. -30%) would seem to be a worst case scenario even with further significant downgrades to real and nominal GDP growth. **In short, we find that EM equities, at present, are**

discounting a 'normal' recession. What they are not discounting is a return to the economic conditions of 2008-9, which is far too bearish, in our view.

Figure 39. MSCI GEMs Trailing Earnings



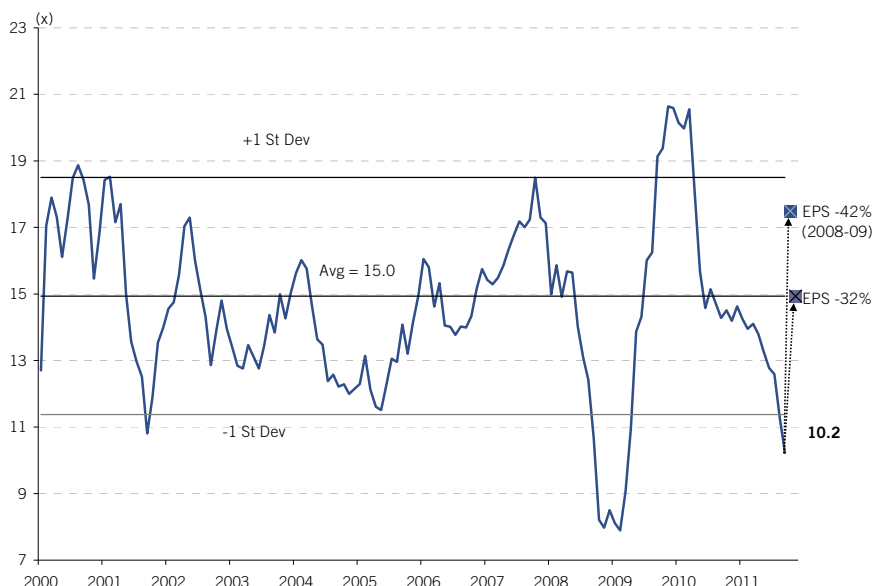
Source: MSCI, Factset and Citi Investment Research and Analysis

Valuations

EM equities have de-rated considerably further over the past quarter. Assuming earnings forecasts do not suffer major downgrades from current levels, EM equities look very attractive on all of our major valuation metrics. The MSCI GEMs index has de-rated to just 10.2x trailing earnings by the end of September from 12.8x as recently as mid-year and 14.6x at the end of 2010 (Figure 40). MSCI GEMs has only traded at a lower trailing multiple than the current one in 6 of the past 192 months (back to the second half of 1995), or just 3% of the time. (These even lower multiples occurred at, or just after, the end of the bear market in October 2008.)

The chart below also shows that earnings would have to fall a further 32% from current levels (they have already fallen by 6% from their peak – above) to take the trailing multiple back to its long-term average of 15%. Moreover, even if earnings were to fall by as much as they did in 2007-8 (-42%), valuations – on current market levels – would be lower than at the October 2007 peak and in late-2009/early-2010.

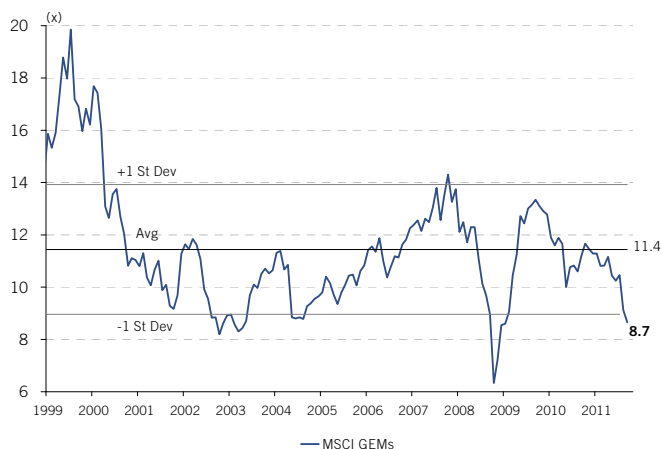
Figure 40. MSCI GEMs Trailing PE



Source: MSCI, Factset and Citi Investment Research and Analysis

The de-rating has also been dramatic on a prospective basis, with the forward P/E falling to 8.7x at end-Q3, over one standard deviation and 24% below the long-term mean of 11.4x (Figure 41). This multiple is near the low at the end of the bear market in late-2002 although not yet as low as the 6-7x at the market trough in late-2008. Still, corporate earnings would have to fall another 24% from current levels for MSCI GEMs to move back to average valuations. EM equities have de-rated to a 16% discount to their recent average on a forward EV/EBITDA basis (5.2x v 6.2x, see Figure 42). MSCI GEMs has fallen to an average P/BV ratio of 1.55x (another 8-year low apart from 2008-9) or 21% below its long-term average of 1.96x (Figure 43). Finally, the yield gap of EM equities over EM sovereign bonds (9.8% - 4.54%) widened much further in Q3 (Figure 44). This reflects the sharp sell-off in EM equities and the relative resilience of EM bonds in Q3, despite a modest rise in debt yields. Eventually, this chart should encourage investors to move back into equities – most likely when they see less earnings risk than at present.

Figure 41. MSCI GEMs Forward P/E (IBES)



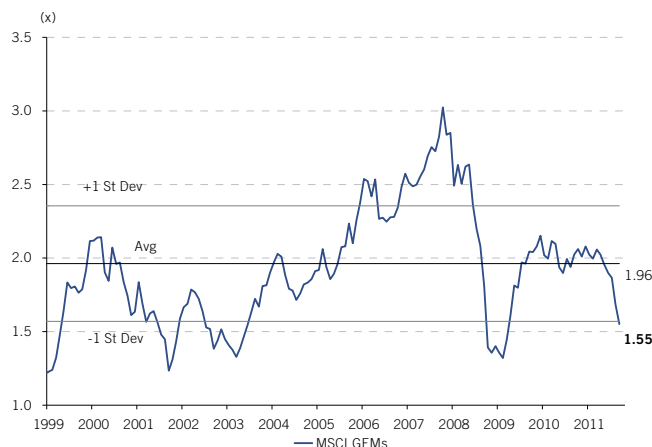
Source: MSCI, IBES, Datastream and CIRA Analysis

Figure 42. MSCI GEMs Forward EV/EBITDA



Source: MSCI, IBES, Datastream and CIRA Analysis

Figure 43. MSCI GEMs Trailing P/B



Source: MSCI, IBES, Datastream and CIRA Analysis

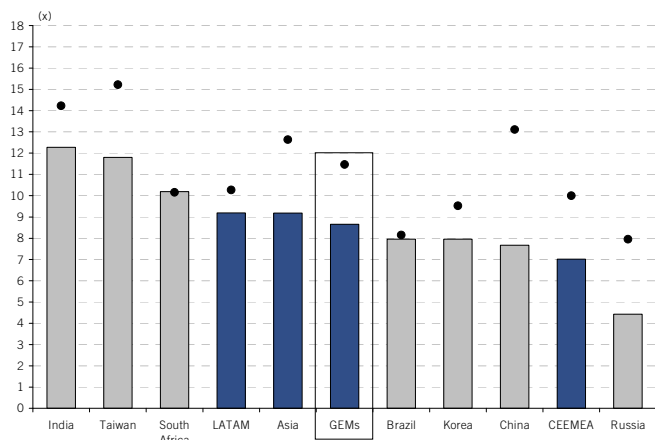
Figure 44. MSCI- Weighted EM Debt Yield vs MSCI GEMs Earnings Yield



Source: MSCI, IBES, JP Morgan, Datastream and CIRA Analysis

Figures 45 and 46 provide a snapshot of current forward P/E valuations for the regions, the 'Big Seven' markets and the sectors. All three regions are trading at a discount to their historical averages, although that for Latin America is fairly modest (11%, compared to 27-30% for the other regions). The only "Big Seven" markets that currently trade close to their historical averages are Brazil (8x) and South Africa (10.2x). All other markets are trading below their historical averages with particularly wide discounts in Russia (44%), China (41%) and Taiwan (23%). The only EM sector trading above its long-term P/E ratio mean is Consumer Staples and even here the discount has narrowed (compared to the last quarter) to just 11% currently. All other sectors are trading well below their long-term averages with the biggest discounts in Health Care (43%), Financials (30%) and IT (24%)

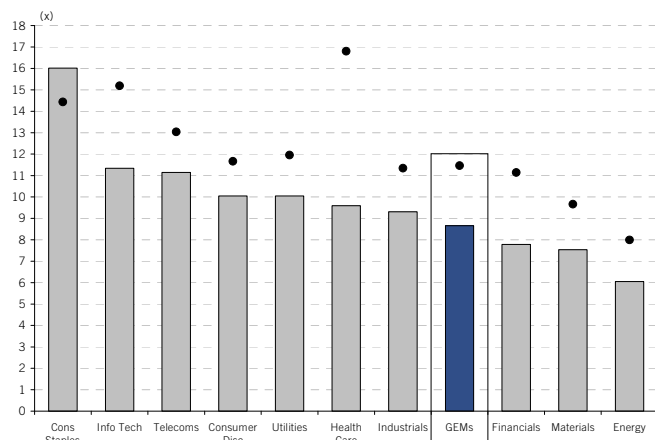
Figure 45. MSCI GEMs Regions and "The Big 7 Markets": Forward P/E



* Dots indicate historical average

End- Month Data. Source: MSCI, Factset and CIRA

Figure 46. MSCI GEMs Sectors: Forward P/E



* Dots indicate historical average

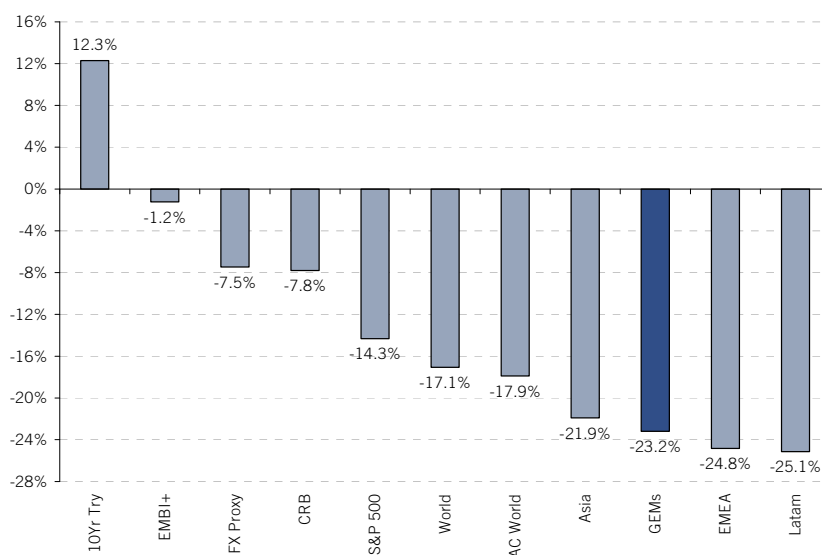
End- Month Data. Source: MSCI, Factset and CIRA

Q3 Recap: Downside Breakout

After remaining range bound in the first half of 2011, emerging market equities fell sharply in Q3, as a confluence of primarily developed market events (US debt ceiling debate and sovereign downgrade, concerns over a double-dip recession in the US, Euro Area debt crisis) combined to send EM equities to their fourth worst quarterly performance in the past 20 years. MSCI GEMs fell by 23.2% in Q3 (after declining just 0.4% in 1H11), and so underperformed DM (MSCI World fell by 17.1%) for the fourth consecutive quarter (Figure 47).

Elsewhere, the US S&P Composite fell by 14.3% in Q3, while global markets as a whole (AC World) fell by 17.9%. Other emerging market assets held up much better, while still weak, as the EMBI+ bond index fell by only 1.2%, while our EM currency proxy declined 8.9% (mainly in September) as liquidity was sucked out of the emerging markets in a classic flight-to-quality trade. The only asset in the chart to record positive gains in Q3 was US Treasuries (+12.3%) as yields collapsed due to concerns over the global economy and the EU debt crisis, aided by the Fed's pledged to keep policy rates near zero until 2013 and its announcement of so-called 'Operation Twist' to seek yet lower long yields. Commodity prices (-7.8% for the CRB index in Q3, driven by sharply lower copper and oil prices) were hit by bouts of heavy selling late in the quarter.

Figure 47. Asset Price Performance (Q3)



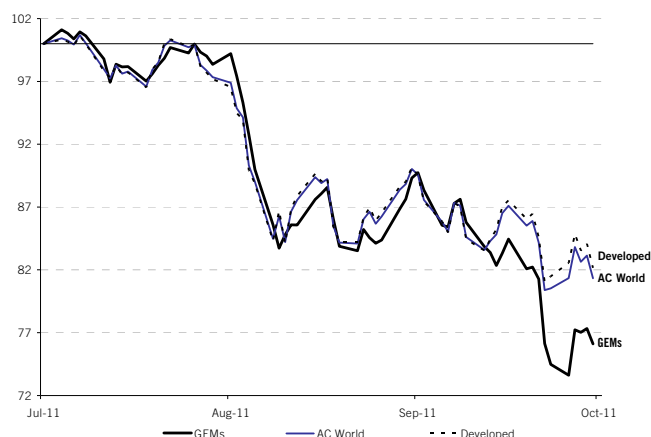
Source: MSCI, JP Morgan, BofA/ML, Datastream and Citi Investment Research and Analysis

After oscillating wildly in Q3, the sharp fall in the EM/DM relative in Q3 (Figure 48) translated into the fourth straight quarter of underperformance; this is now the longest sustained period of underperformance vs DM since 1997-1998, when EM lagged for seven consecutive quarters. As a result, the EM v. DM relative has breached its mid-February 2011 low; emerging markets have now underperformed developed markets by 1400bp since the relative EM peak in early-October 2010.

Among the three regions, the performance variation in Q3 was fairly limited (Figure 49) as the flight from risky assets was broad-based and hit all EM regions fairly evenly. Asia outperformed within GEMs for the second straight quarter (-21.9% in

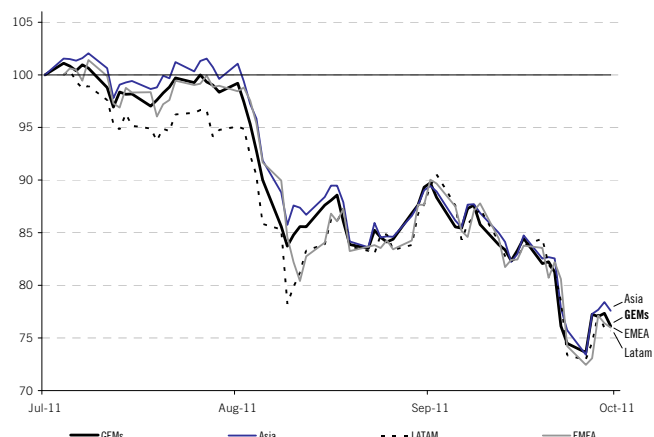
Q3 v. 23.2% for GEMs), while both EMEA (-24.8% and Latin America (-25.1%) underperformed. Asia's outperformance in Q3 was attributable to the outperformance of the smaller ASEAN markets, as larger markets such as both China and Korea underperformed.

Figure 48. MSCI AC World, World (Developed) and GEMs: (Q3)



Source: MSCI, Datastream and Citi Investment Research and Analysis

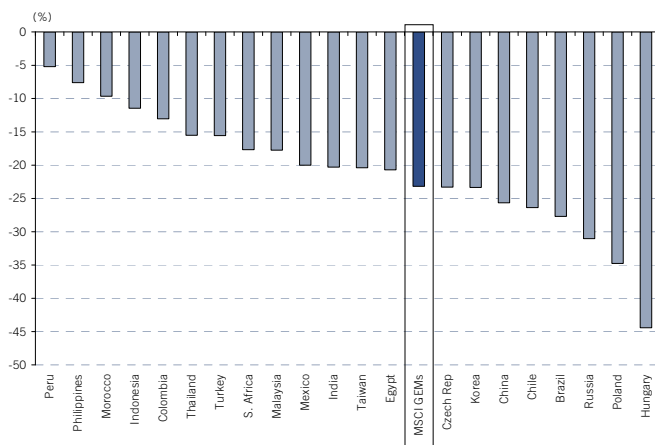
Figure 49. MSCI GEMs Regions: (Q3)



Source: MSCI, Datastream and Citi Investment Research and Analysis

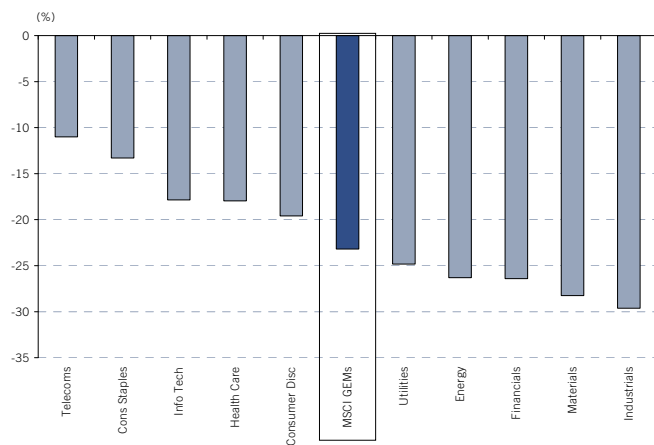
There was little geographical pattern of country winners and losers in Q3 (Figure 50), although the smaller markets clearly dominate the list of top performers led by Peru (-5.2%), Philippines (-7.6%) and Morocco (-9.7%). South Africa (-17.7%) was the best performing of the 'Big Seven', followed by India (-20.3%) and Taiwan (-20.4%). Meanwhile, each CE3 market underperformed, with the heaviest losses occurring in Hungary (-44.4% - the worst performing emerging market) and Poland (-34.8%). In terms of the other big markets, Q3 saw poor relative performances by Russia (-31.0%), Brazil (-27.7%), China (-25.7%) and Korea (-23.3%).

Figure 50. MSCI GEMs Q3 Performance in USD: Countries



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 51. MSCI GEMs Q3 Performance in USD: Sectors



Source: MSCI, FactSet and Citi Investment Research and Analysis

In Q3, all sectors declined (Figure 51); however domestic growth and defensive sectors generally outperformed global cyclicals. Telecoms (-11.0%) was the best performer in Q3, followed by Consumer Staples (-13.3%), which also outperformed

in 1H11. IT and Health Care both fell by 17.9%, but also outperformed MSCI GEMs. Industrials was the worst performing sector, falling by 29.6%, while sectors more closely tied to the global economy – materials and energy – declined by 28.2% and 26.3% respectively. Financials underperformed again, declining by 26.4% in Q3.

Regional and Sector Allocation: What the Model Says

Our GEM asset allocation models rank the attractiveness of the three EM regions, the countries and the sectors that are included in the MSCI GEMs index according to ten factors. These may be grouped into five sub-groups: i) earnings/ROE; ii) Valuation/momentum; iii) macro (real growth and interest rates); iv) beta; and v) a qualitative input. For the upcoming quarter, we have reversed the beta factor to reflect our more defensive short-term stance (i.e. high beta scores low in the model and low beta scores high). The current model rankings by region, country and sector are set out in Figure 52 at the end of this section and a full description of each of the ten factors is included in an appendix at the end of this report.

Regional Rankings – Top Pick: Asia

We retain Asia as our top regional pick for Q4, upgrade Latin America to Neutral and cut EMEA to Underweight. Despite the extreme weakness of the markets in Q3 (MSCI GEMs -23.2%), the variation of performance across the regions last quarter was, quite remarkably, even tighter (290bp) than it in Q2 (310bp). Therefore, recent relative performance has, in practice, made little contribution to our new views for the upcoming quarter.

Asia continues to score the best, based on our analysis, on essentially all growth factors, including earnings growth and momentum, ROE, earnings revisions and GDP growth. Our ongoing Overweight reflects confidence that the slowdown in the Chinese economy will be controlled (8.7% growth forecast in 2012). We showed in the body of the report that Asian countries are the least exposed to recession in Europe. Asia, as a region, is likely to be a major beneficiary of lower commodity prices (although this effect will vary by country). Asia has the lowest real interest rates in the EM world.

Also, Asia is the lowest beta region within emerging markets and it is much less dependent on foreign capital flows (given external surpluses in every country except India) should risk-aversion return in force. Finally, Asia is cheap; it trades on 9.2x forward earnings (well below its long-term average of 12.6x) and at 1.61x Book Value (compared to a recent average of 1.93x). The risks to our positive view on Asia are: i) China slows down more than we expect; ii) regional currencies fall sharply in the event of a further rally in the dollar; iii) Asia underperforms as a major risk rally builds before year-end.

We have cut **CEEMEA** to Underweight for reasons that are both top-down (exposure, to any further worsening of the EU debt crisis) and bottom-up (a less bullish view on Russia). All GEMs with the biggest exposure to a recession in Europe are in CEEMEA, including CE3, Russia, Turkey (where we remain Overweight) and South Africa. Our view that EM equities will remain volatile in Q4, based on further 'event risk' in the Euro Area, also supports an Underweight in CEEMEA, which is the highest-beta region in the GEMs universe. Currency risk is also high in the event of further EU turbulence and a further rally in the dollar.

Our forecast of sharply lower oil prices (Brent at \$86/barrel in 2012), alongside concerns over politics (after the Putin/Medvedev shuffle) explain our Underweight in Russia, which also impacts our view on the whole region. The risks to our view are that Russia, which is very cheap, rallies strongly, and Europe calms down, so

generating a big risk rally. CEEMEA also now benefits from the end of any hint of tighter monetary policy except in Turkey and South Africa next year. The region also scores very well on valuations, trading at just 7x forward earnings (a 30% discount to its recent average of 10x) and at 1.34x Book Value (a 33% discount to its average of 1.99x).

For Q4, we maintain a small Underweight in **Latin America**, as it is less exposed to events in Europe, when compared with CEEMEA. Mexico is closely tied to the US, where the economy currently looks less at risk once again, while the exports of other Latin American countries are well diversified by geography; the region has also been the worst performer within GEMs so far this year. Latin America suddenly scores better in our model on interest rates given the radical change in the outlook for monetary policy in the region – rates being cut in Brazil (although we have doubts over the wisdom of this action) and no more rate hikes elsewhere, while it remain in the middle ground across the EM regions in terms of GDP growth.

We find the least compelling part of the story – at least relative to other EM regions – is valuations. Latin America is cheap at 9.2x forward earnings (compared to a recent average of 10.3x) and at 1.6x Book Value (compared to 2.06x), but these discounts to history are lower than elsewhere. The main risks to Latin America are a collapse in commodity prices (if the global economic outlook worsens sharply) and a further unwinding of the carry trade, which would be a negative for regional currencies.

Country Rankings – Top Picks: China, Korea, Malaysia, Turkey, Chile

In this report, we make two important changes to our country calls within the BRICS. We upgrade **India** to Neutral within GEMs based on: i) its status as a major commodity importer, in the event that there are further sharp declines in commodity prices as global growth forecasts are downgraded further; ii) the complete erosion of India's valuation premium versus its history with the market now trading on 12.3x (versus a long-term average of 14.2x) and at 2.5x Book Value (compared to 3.3x); iii) a peak, at least for the short-term, in interest rates as the central bank balances weaker global growth with still high inflation at home; and iv) above-average earnings growth (16.5% in 2011 and 14.8% in 2012) and a high average ROE (16.2%).

We also downgrade **Russia** to Underweight to reflect, in part, our downgrade of CEEMEA (while Russia remains a Neutral within the region). While Russia is the cheapest EM on most valuation metrics, the market faces rising headwinds from lower oil prices and the impact on sentiment of political events, notably the naming of President Medvedev as likely to return as Prime Minister (as Putin runs again for the presidency) and the consequent abrupt departure of respected Finance Minister Kudrin. We now expect Russia to grow at just 2.5% in 2012. There is also substantial downside risk to Russian earnings from current levels if oil prices fall further; we forecast an average Brent price of \$86/barrel in 2012.

Our key Overweights are unchanged:

- **China**, where investor fears of a hard landing look overdone. With monetary tightening now over and some room for fiscal easing should the economy slow more than expected, recent market weakness presents a strong long-term buying opportunity, in our view. The market is also attractively valued at 7.7x forward earnings (compared to a long-term average of 13.1x) and at 1.48x Book (compared to a long-term average of 2.31x);

- **Korea**, based on low investor weightings, limited exposure to the weakest part of the global economy (Europe), highly attractive valuations. Korea is the cheapest market in Asia and one of the cheapest within GEMs at 8x forward earnings (compared to the historical average of 9.6x and at 1.27x Book Value (compared to an average of 1.45x). Assuming current share prices are fair value, Korea is implying 0% EPS growth to perpetuity based on a Cost of Equity of 12%. Korea is a higher-beta market that is a hedge against EM equities running away in Q4;
- **Turkey**, given strong economic growth at 7.3% (despite some exposure to the European slowdown, which may help to cut growth to 2.5% in 2012); weaker growth will, however, be a partial benefit as it will help to rein in the troublesome current account deficit. Turkey should be a major beneficiary of any extended declines in commodity prices, while earnings forecasts have already fallen significantly. However, we find Turkey now trades at only a small discount to its history at 9.1x forward earnings (v. 9.35x) and, unusually, trades at a premium to GEMs on this basis.

We have also upgraded two smaller markets to Overweight:

- **Malaysia**, based on its defensive qualities, the Underweight held in the market by Asia ex fund managers and its low foreign ownership of just 20%, which suggests that de-risking liquidation risk should be lower. Malaysia may be expensive compared to the rest of Asia, but at 12.5x forward earnings, it trades at a 16% discount to its historical average of 14.9x;
- **Chile**, based on the country's strong growth story, which should be boosted by fiscal expansion, unusual underperformance in weak markets in Q3, a peak in interest rates and very low valuations by Chilean standards at 12.9x forward earnings (a 17% discount to its recent average of 15.6x).

Elsewhere, we pay for the rest of these upgrades by taking money out of Indonesia and Peru, which are downgraded to Underweight. The defensive Czech Rep is upgraded to Neutral. Brazil, Taiwan and Thailand remain Neutrals. Within our other Underweights, the key themes are a continuing very low weight in CE3 (Underweight in Hungary and Poland, due to declining economic growth, exposure to the recession in Europe and to any extension of the EU debt crisis, and currency risk) and a negative view on Mexico based on its very close link to the still-weak US economy and rich valuations (13.6x forward earnings) even by Mexican standards.

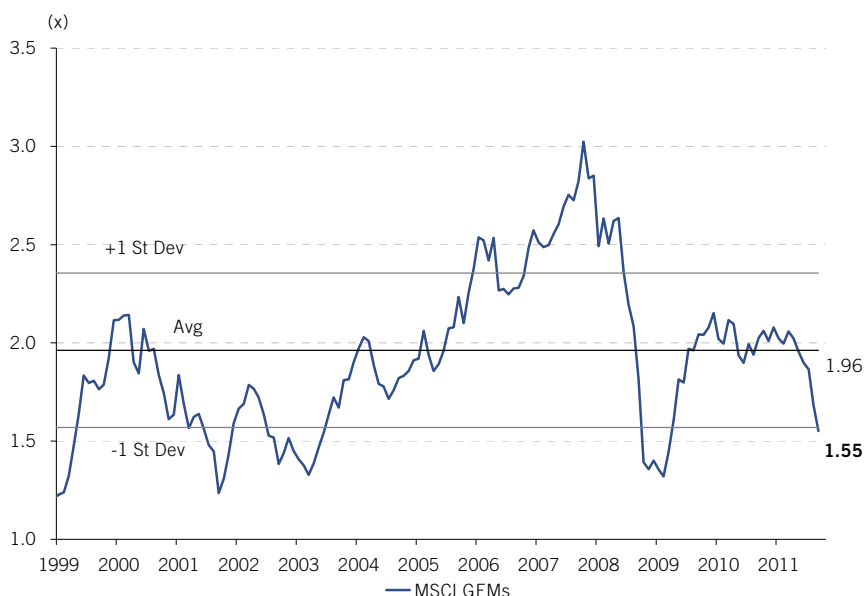
Sector Rankings – Top Picks: Financials, Cons Discretionary, IT

Our investment thesis for Q4 – further volatility associated with the EU debt crisis, further downgrades to global growth, but where EM equity markets should bounce into year-end on seasonal and valuation grounds – points towards a preference for domestics over global cyclicals. In short, we prefer Banks to Materials and Energy.

The big call, in our view, is **Financials (Overweight)**, which underperformed by 300bp in Q3 (-26.4% v. -23.2%), a relative performance that could arguably have been worse in the face of the severe damage to banks in Europe from the EU debt crisis. For Q4, our thesis is that EM banks are now very cheap (at 1.4x Book Value, just 10% above their 2008 trough, and 25% cheap to their long-term average, see Figure 52). A TARP-style rescue fund for European banks is likely to be put in place some time in Q4 and, although the effect may be to wipe out equity in several European banks, the impact on EM banks (which have fallen recently in sympathy with the European crisis) is likely to be very positive. Also, the fading impact of macro-prudential measures in Brazil and China (amongst others) should help banks in those countries to rally. We have several banks in our Model Portfolio: Itau

Unibanco (Brazil), China Construction Bank and Ag. Bank of China (China), State Bank of India (India), KB Financial Group (Korea), Maybank (Malaysia), Credicorp (Peru), Bank Pekao (Poland), Sberbank (Russia), Standard Bank (South Africa) and Kasikornbank (Thailand).

Figure 52. MSCI GEMs P/B: Financials



Source: MSCI, Datastream and Citi Investment Research and Analysis

We also retain Overweights in **Consumer Discretionary** and **IT**, which both trade well below their long-term average valuations, although they did outperform within GEMs during the carnage of Q3. Our preference for both sectors reflects our optimism over long-term growth in emerging economies. The Consumer Discretionary stocks in our Model Portfolio are PDG Realty (Brazil), Golden Eagle (China), Tata Motors (India), X5 Retail (Russia) and Tofas (Turkey); our IT names in the portfolio are Wipro (India), Samsung Electronics (Korea), TSMC and Hon Hai Precision (Taiwan).

One concern for Q4 is that global growth forecasts seem set to fall further – even if our base case of no recession in the US nor the global economy and a mild ‘double-dip’ in Europe is correct. Alongside further modest dollar appreciation against the Euro, this is likely to put further downward pressure on commodity prices. In particular, the Citi view is for Brent oil prices to fall another 15% from current levels to an average of \$86/barrel in 2012. Therefore, we cut **Materials** to Neutral and **Energy** to Underweight, even though both underperformed in Q3 and both are trading at 20-25% discount, by our measure, to their long-term averages on a forward P/E basis. Further earnings downgrades seem likely in this sector.

Elsewhere, our portfolio reflects the view that a fully defensive posture may, however, be too cautious for Q4. We stay Underweight in several classic defensive sectors - **Consumer Staples**, **Health Care** and **Telecoms** - all of which outperformed in Q3. Consumer Staples is the only EM sector trading above its long-term valuation average at 16x forward (v. 14.4x) and is a well-owned sector. However, we upgrade **Utilities**, which also outperformed in Q3, but is attractively valued, to Neutral to add some defense to our portfolio. Finally, we retain a Neutral in **Industrials**, which was the worst-performing EM sector in Q3, to maintain some

exposure to cyclical growth in the emerging markets themselves; the sector trades at an 18% discount to its long-term average at 9.3x (v. 11.3x).

Model Portfolio of Stocks

Our model portfolio with rationales for each stock can be found in Figures 1-4. Since inception in May 2010, the portfolio is down 0.7% and is outperforming the MSCI GEMs index and the Thomson Reuters EM index by 677bps and 323bps, respectively.

With this report, we add CEZ (CEZPsp.PR; Kc122.5; 1M) as we are upgrading the Czech Republic and Utilities to Neutral. In China, we add Huaneng Renewables (0958.HK; HK\$1.81; 1L), our China Utilities analyst's top pick, and remove Mengniu Dairy (2319.HK; HK\$21.90; 1M) as we remain underweight Consumer Staples and also remove China Oilfield Services (2388.HK; HK\$14.52; 1M), due to our downgrade of Energy. In Korea, we replace Shinhan Financial (055550.KS; W39,800; 1L) with our Korea strategist's preferred Samsung Fire & Marine (000810.KS; W206,000; 1L), which has high earnings visibility, a clean balance sheet and trades at Lehman crisis valuation (1.3x P/B) levels. We replace Hyundai E&C (000720.KS; W52,200; 1M) with Samsung Engineering (028050.KS; W200,000; 1M), our strategist's preference among Korean industrials. In Taiwan, we replace UMC (2303.TW; NT\$11.45; 1L) with TSMC (2330.TW; NT\$69.1; 1L), our Taiwanese semiconductor analyst's top pick and the biggest beneficiary from the rapid ramp-up of 28nm process technology production. Within India, we replace Mahindra & Mahindra (MAHM.BO; INR786.45; 2L) with Tata Motors (TAMO.BO; INR147.40; 1M), which is well positioned to benefit from the Indian infrastructure/capex story given its dominant positioning in the truck market and trades at attractive valuations (2012 PE 5.5x). In Russia, we replace Gazprom (GAZP.RTS; US\$4.37; 1M) with our regional strategist's preferred Novatek (NVTkq.L; US\$103.90; 1M). Within Turkey we remove Arcelik (ARCLK.IS; TRY6.80; 1M) and add TAV Havalimanlari Holding (TAVHL.IS; TRY7.36; 1M) to gain exposure to Industrials within that market. In Poland, we replace PZU (PZU.WA; z1 299; 1L) with our strategist's preferred Bank Pekao (BAPE.WA; z1 136.5; 1L). Finally in Mexico, we reduce our Telecoms exposure by removing America Movil (AMX.N; US\$21.65) and add Walmex (WALMEX.MX; P\$32.43; 1L), which appears well positioned to increase market share among Mexican retailers given its accelerated expansion plan and multi-format approach to market segmentation.

Appendix – GEMs Factor Allocation Model Ranking

Figure 53. GEMs Allocation Model Ranking

	Earnings Growth + Mom				Val + Price Mom			Macro		Other	Total 100%
	Growth	E. Mom	RoE	ERI	Valuation	P. Mom	Beta	GDP	Rates	Qualitative	
	15%	10%	5%	5%	30%	5%	10%	5%	10%	5%	
Emerging World											
Regions											
Em Asia	1	1	1	1	3	3	1	1	1	2	1
Lat Am	3	3	3	3	2	1	2	2	1	1	3
CEEMEA	2	2	2	2	1	2	3	3	1	3	2
Countries											
Brazil	15	18	15	14	3	4	16	9	12	11	15
Chile	14	13	3	11	16	5	6	8	10	1	5
China	12	8	7	9	2	6	14	1	9	11	1
Colombia	1	7	9	4	20	17	5	7	21	1	7
Czech Republic	21	14	5	21	7	8	10	20	3	21	17
Egypt	9	1	21	20	6	9	2	17	15	21	6
Hungary	17	21	20	19	5	1	21	21	18	21	21
India	7	3	18	18	15	11	11	2	1	21	10
Indonesia	4	5	12	3	19	18	13	3	15	11	12
Korea	8	11	14	7	10	7	18	14	2	1	8
Malaysia	10	9	10	12	12	13	4	5	6	1	3
Mexico	11	19	17	13	21	12	12	10	14	1	20
Morocco	20	4	2	6	17	19	1	16	12	21	13
Peru	3	17	6	8	14	21	8	4	10	21	11
Philippines	13	6	1	5	18	20	3	11	8	11	4
Poland	18	12	8	16	1	2	20	18	7	21	9
Russia	19	20	13	2	4	3	19	12	5	21	16
South Africa	2	16	19	15	12	14	17	19	19	11	19
Taiwan	5	15	11	17	11	10	9	6	20	11	14
Thailand	6	9	4	1	7	16	7	13	4	21	2
Turkey	16	2	16	10	9	15	15	15	15	21	18
Sectors											
Energy	9	7	10	1	1	4	9	4	2	10	9
Materials	3	9	4	3	3	2	10	10	8	6	5
Industrials	7	10	1	6	8	1	6	5	1	2	4
Consumer Disc.	1	2	2	4	9	6	8	8	4	1	3
Consumer Staples	2	4	6	2	10	9	3	6	8	3	7
Health Care	8	1	9	9	7	7	1	9	4	9	8
Financials	4	3	3	5	2	3	7	2	3	8	1
IT	5	5	8	10	4	8	5	1	4	4	2
Telecoms	10	6	7	7	5	10	2	3	10	5	10
Utilities	6	8	5	8	6	5	4	7	4	7	6

Source: Citi Investment Research and Analysis

Regions

Asia – Overweight

Figure 54. Regional Breakdown

Weight in GEMs	59.3%
FF Mkt Cap (US\$, mn)	1,833.2
Country Weights	
China	28.3%
Korea	24.7%
Taiwan	19.3%
India	12.7%
Malaysia	5.7%
Indonesia	5.0%
Thailand	3.1%
Philippines	1.1%
Sector Weights	
Financials	24.2%
Info Tech	21.0%
Energy	9.7%
Materials	9.8%
Industrials	8.6%
Consumer Disc	9.7%
Telecom	7.4%
Cons Staples	5.9%
Utilities	2.5%
Health Care	1.2%

Source: MSCI, FactSet and CIRA

Asia continues to score best on essentially all growth factors, by our measure, including earnings growth and momentum, ROE, earnings revisions and GDP growth. Our ongoing Overweight reflects confidence that the Chinese slowdown will be controlled (8.7% growth forecast in 2012). We show that Asian countries are least exposed to recession in Europe, while the region is a major beneficiary of lower commodity prices (although this will vary by country). Asia has the lowest real rates in the EM world. It is also the lowest beta region within EMs and it is much less dependent on foreign capital flows (given external surpluses in every country except India) should risk-aversion return in force. Finally, Asia is cheap, trading on 9.2x forward earnings (well below its LT average of 12.6x) and at 1.61x Book Value (compared to 31.9x). The risks to our positive view include: i) China slows more than we expect; ii) regional currencies fall sharply in the event of a further rally in the dollar; iii) Asia underperforms as a major risk rally builds before year-end. Our Overweights are China, Korea and Malaysia (upgraded) while we upgraded India to Neutral, financing this move by taking money out of other ASEAN markets.

Figure 55. Key Metrics

	Performance						Valuation			
	US\$			Local Currency			Forward		Trailing	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD	P/E	P/B	ROE	
GEMs	-23.2%	-5.6%	-27.8%	-15.7%	-4.6%	-22.3%	8.7	1.55	15.2%	3.0%
Asia	-21.9%	-5.9%	-26.2%	-17.8%	-5.2%	-23.3%	9.2	1.61	14.8%	2.9%
Energy	-22.2%	-8.0%	-27.0%	-19.9%	-7.7%	-25.1%	7.9	1.72	19.1%	3.2%
Materials	-31.4%	-7.5%	-31.9%	-26.9%	-6.8%	-28.7%	7.6	1.39	14.8%	3.6%
Industrials	-31.0%	-6.9%	-37.8%	-26.5%	-6.2%	-35.0%	8.9	1.26	13.0%	2.3%
Cons Disc	-18.3%	-5.6%	-9.9%	-12.6%	-4.7%	-6.2%	9.3	2.14	18.5%	1.6%
Staples	-10.0%	-5.3%	-10.0%	-5.4%	-4.6%	-6.6%	15.3	3.19	19.1%	2.2%
Health Care	-15.9%	-4.1%	-22.3%	-10.1%	-3.4%	-17.2%	18.2	3.38	14.3%	0.8%
Financials	-26.2%	-7.2%	-32.8%	-23.1%	-6.7%	-30.6%	7.6	1.33	14.1%	3.2%
Info Tech	-18.1%	-3.4%	-25.8%	-12.2%	-2.6%	-21.8%	11.5	1.87	14.4%	2.8%
Telecom	0.7%	-3.7%	-0.8%	2.8%	-3.4%	0.4%	12.1	2.01	15.0%	4.1%
Utilities	-22.1%	-4.6%	-27.9%	-18.1%	-4.0%	-25.0%	11.8	0.96	5.8%	2.6%

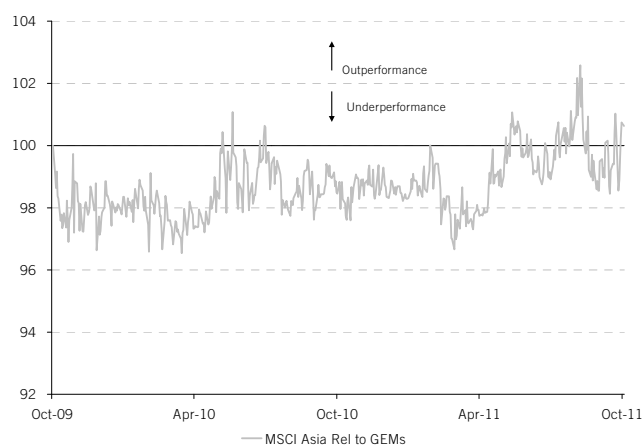
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 56. MSCI Index (\$) with Moving Averages



Source: MSCI, Datastream and Citi Investment Research and Analysis

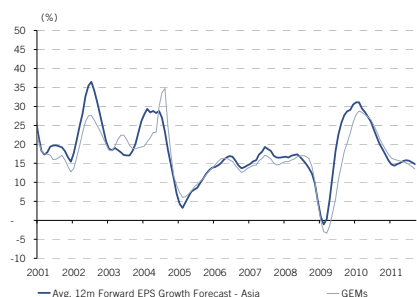
Figure 57. Performance Relative to GEMs



Source: MSCI, Datastream and Citi Investment Research and Analysis

Fundamentals and Valuation

Figure 58. Forward 12m EPS Growth (IBES)



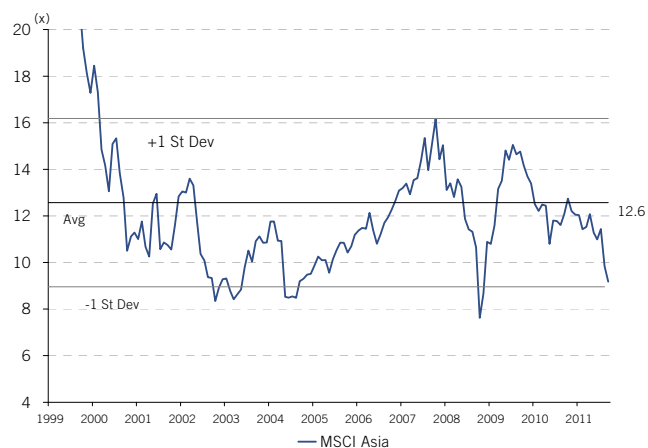
Source: MSCI, IBES, Datastream and CIRA

Figure 59. Trailing ROE



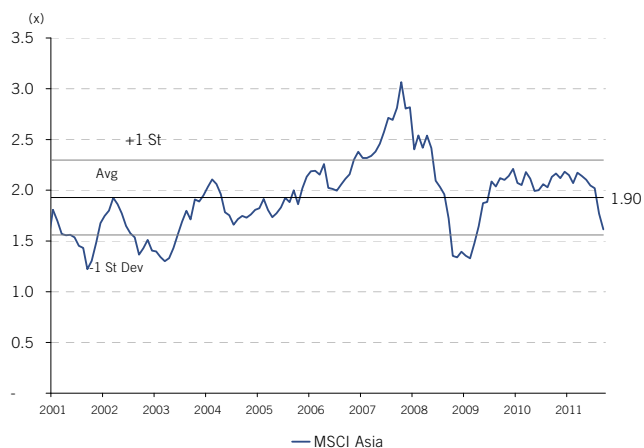
Source: MSCI, Datastream and CIRA

Figure 60. Forward 12m P/E (IBES)



Source: MSCI, IBES, Datastream and CIRA

Figure 61. MSCI P/B



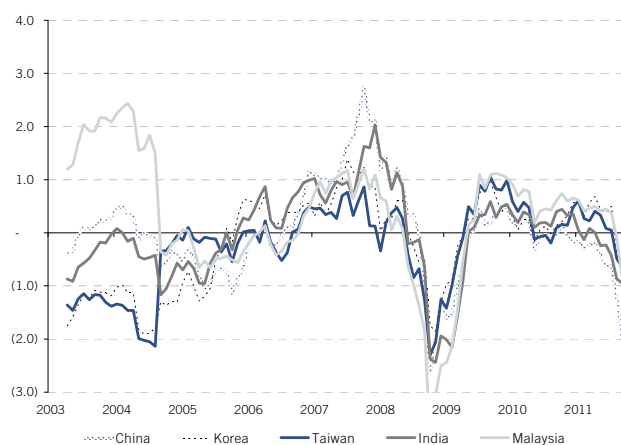
Source: MSCI, IBES, Datastream and CIRA

Figure 62. MSCI Weighted Asia Debt Yield vs Earnings Yields



Source: JPM, MSCI, Datastream, FactSet and CIRA

Figure 63. Composite Valuation



Average of normalized forward P/E, trailing book, earnings yield, dividend yield.
Source: MSCI, IBES, Datastream and CIRA

Latin America – Underweight

Figure 64. Regional Breakdown

Weight in GEMs	22.3%
FF Mkt Cap (US\$, mn)	689.7
Country Weights	
Brazil	65.2%
Mexico	20.7%
Chile	7.3%
Colombia	4.2%
Peru	2.6%
Sector Weights	
Materials	22.0%
Financials	20.8%
Energy	14.5%
Cons Staples	14.3%
Telecom	9.9%
Utilities	6.2%
Consumer Disc	5.5%
Industrials	4.4%
Info Tech	1.8%
Health Care	0.6%

Source: MSCI, FactSet and CIRA

For Q4, we maintain a small Underweight in Latin America, as it is less exposed to events in Europe, when compared with CEEMEA. Mexico is closely tied to the US, where the economy currently looks less at risk once again, while the exports of other Latin American countries are well diversified by geography; the region has also been the worst performer within GEMs so far this year. Latin America suddenly scores better in our model on interest rates given the radical change in the outlook for monetary policy in the region – rates being cut in Brazil (although we have doubts over the wisdom of this action) and no more rate hikes elsewhere, while it remain in the middle ground across the EM regions in terms of GDP growth. The least compelling part of the story – at least relative to other EM regions – is valuations. Latin America is cheap at 9.2x forward earning (compared to a recent average of 10.3x) and at 1.6x Book Value (compared to 2.06x), but these discounts to history are lower than elsewhere. The main risks to Latin America are a collapse in commodity prices (if the global economic outlook worsens sharply) and a further unwinding of the carry trade, which would be a negative for regional currencies. Our favored market in Latin America is Chile, and we are Neutral in Brazil.

Figure 65. Key Metrics

	Performance						Valuation			
	US\$			Local Currency			Forward	Trailing	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD	P/E	P/B		
GEMs	-23.2%	-5.6%	-27.8%	-15.7%	-4.6%	-22.3%	8.7	1.55	15.2%	3.0%
Latam	-25.1%	-4.2%	-30.6%	-12.3%	-3.1%	-22.0%	9.2	1.60	15.3%	3.1%
Energy	-30.9%	-4.3%	-39.6%	-18.5%	-3.1%	-32.2%	8.0	0.97	12.5%	3.2%
Materials	-28.1%	-5.3%	-37.6%	-16.3%	-4.2%	-30.2%	6.4	1.45	19.3%	3.8%
Industrials	-27.3%	-5.9%	-28.9%	-15.3%	-4.7%	-19.4%	14.5	2.25	15.2%	2.6%
Cons Disc	-25.2%	-3.7%	-32.1%	-11.7%	-2.6%	-23.2%	11.1	2.19	14.5%	1.3%
Staples	-15.3%	-2.7%	-14.1%	-0.3%	-1.6%	-2.8%	17.7	2.87	12.6%	2.3%
Health Care	n/a	-4.5%	n/a	n/a	-3.4%	n/a	17.6	2.97	8.8%	1.1%
Financials	-27.3%	-3.9%	-32.5%	-15.1%	-2.8%	-24.6%	9.0	1.65	15.4%	2.8%
Info Tech	-8.7%	-3.2%	1.9%	8.5%	-2.1%	15.2%	13.6	13.00	89.5%	4.1%
Telecom	-18.1%	-3.6%	-20.7%	-3.4%	-2.6%	-10.3%	9.2	2.33	20.1%	3.2%
Utilities	-24.2%	-4.7%	-22.3%	-12.1%	-3.4%	-12.4%	9.6	1.07	9.7%	5.1%

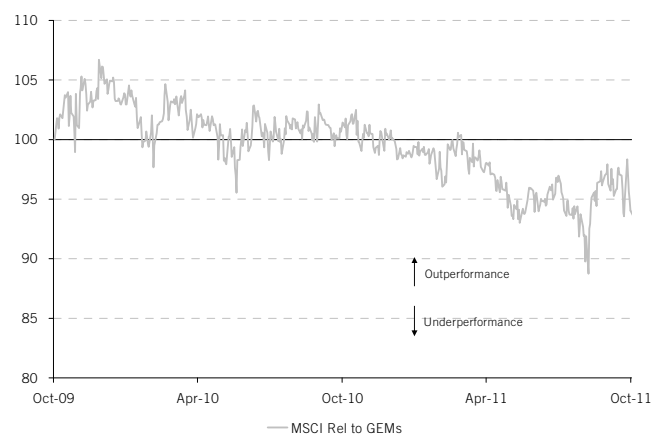
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 66. MSCI Index (\$) with Moving Averages



Source: MSCI, Datastream and Citi Investment Research and Analysis

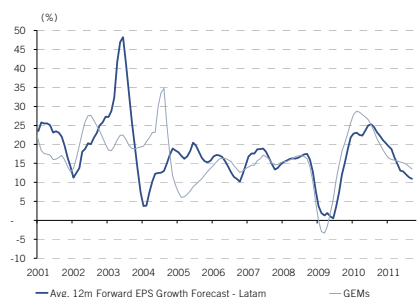
Figure 67. Performance Relative to GEMs



Source: MSCI, Datastream and Citi Investment Research and Analysis

Fundamentals and Valuation

Figure 68. Forward 12m EPS Growth (IBES)



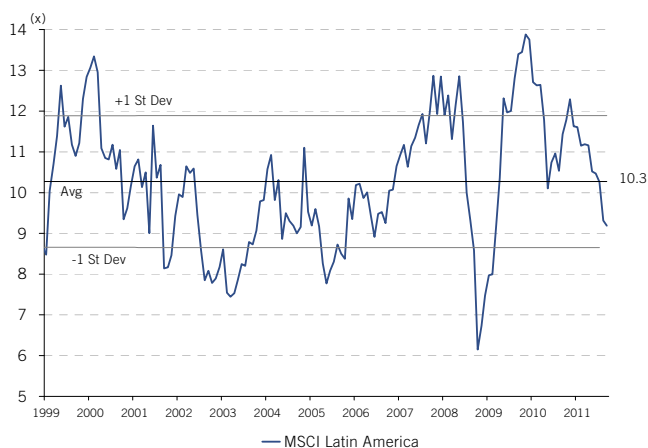
Source: MSCI, IBES, Datastream and CIRA

Figure 69. Trailing ROE



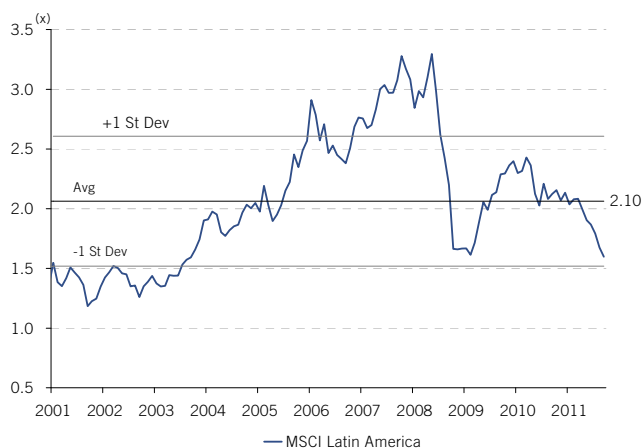
Source: MSCI, Datastream and CIRA

Figure 70. Forward 12m P/E (IBES)



Source: MSCI, IBES, Datastream and CIRA

Figure 71. MSCI P/B



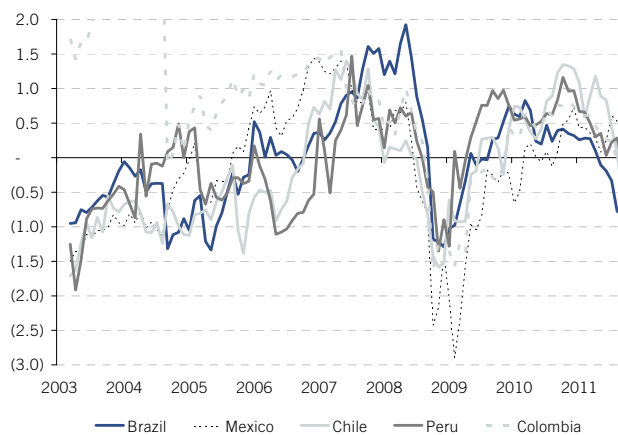
Source: MSCI, IBES, Datastream and CIRA

Figure 72. MSCI Weighted Latam Debt Yield vs Earnings Yields



Source: JPM, MSCI, Datastream, FactSet and CIRA

Figure 73. Composite Valuation



Average of normalized forward P/E, trailing book, earnings yield, dividend yield.
Source: MSCI, IBES, Datastream and CIRA

CEEMEA – Underweight

Figure 74. Regional Breakdown

Weight in GEMs	18.3%
FF Mkt Cap (US\$, mn)	566.3
Country Weights	
South Africa	42.3%
Russia	34.7%
Poland	8.3%
Turkey	8.2%
Egypt	1.9%
Hungary	1.7%
Czech Republic	2.0%
Morocco	1.0%
Sector Weights	
Financials	25.7%
Energy	26.3%
Materials	17.6%
Telecom	11.6%
Consumer Disc	6.1%
Cons Staples	4.5%
Utilities	3.5%
Industrials	3.2%
Health Care	1.5%
Info Tech	0.1%

Source: MSCI, FactSet and CIRA

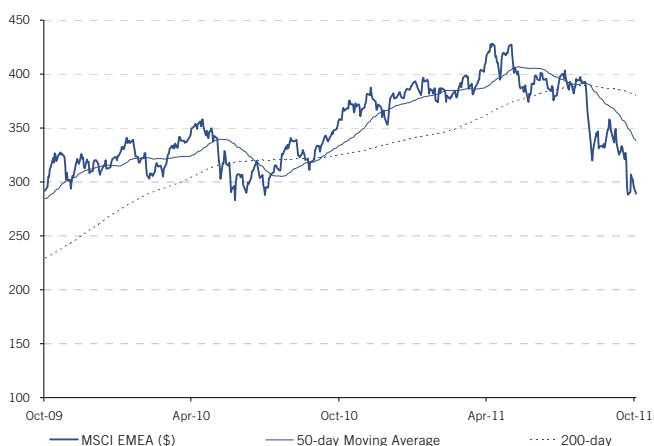
We cut CEEMEA to Underweight for reasons that are top-down (exposure to the EU debt crisis) and bottom-up (a less bullish view on Russia). All GEMs with the most exposure to a recession in Europe are in CEEMEA, including CE3, Russia, Turkey and South Africa. If EM equities remain volatile in Q4, based on further 'event risk' in the Euro Area, this also supports an Underweight in CEEMEA, which is the highest-beta region. Currency risk is high in the event of more EU turbulence and a new rally in the dollar. Our forecast of sharply lower oil prices (Brent at \$86/barrel in 2012), alongside concerns over politics (after the Putin/Medvedev shuffle) explain our Underweight in Russia, which impacts our view on the region. The risks to our view are that Russia, which is very cheap, rallies strongly, and Europe calms down, triggering a big risk rally. CEEMEA also now benefits from the end of any hint of higher rates until 2012. Above all, the region scores very well on valuations at just 7x forward earnings (a 30% discount to its recent average of 10x) and 1.34x Book Value (a 33% discount to 1.99x). Our Overweight in the regions is Turkey; we are also Underweight in South Africa, Hungary and Poland.

Figure 75. Key Metrics

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-23.2%	-5.6%	-27.8%	-15.7%	-4.6%	-22.3%	8.7	1.55	15.2%	3.0%
EMEA	-24.8%	-6.4%	-29.3%	-13.0%	-4.5%	-18.5%	7.0	1.34	16.1%	3.3%
Energy	-27.7%	-7.7%	-25.5%	-16.9%	-6.2%	-18.4%	3.8	0.76	17.2%	2.9%
Materials	-22.3%	-7.0%	-31.6%	-9.0%	-4.9%	-19.1%	8.0	2.36	18.1%	2.9%
Industrials	-19.3%	-5.6%	-34.4%	-8.1%	-3.6%	-21.5%	9.1	1.82	14.1%	3.5%
Cons Disc	-19.9%	-6.4%	-27.3%	-5.1%	-3.7%	-9.5%	12.4	2.76	14.8%	2.1%
Staples	-18.6%	-5.1%	-24.0%	-7.1%	-3.0%	-9.5%	15.6	5.20	25.3%	2.1%
Health Care	-17.8%	-3.6%	-25.7%	-2.4%	-0.8%	-11.6%	12.9	2.60	16.0%	2.1%
Financials	-26.1%	-6.8%	-33.7%	-14.1%	-4.9%	-22.6%	7.7	1.43	15.3%	3.6%
Info Tech	-31.9%	-1.1%	-32.2%	-18.3%	0.0%	-23.6%	7.9	0.70	8.7%	4.4%
Telecom	-23.2%	-3.7%	-24.9%	-12.7%	-1.8%	-12.4%	10.1	2.35	15.7%	5.1%
Utilities	-31.5%	-3.6%	-30.9%	-21.3%	-2.2%	-26.4%	9.8	0.77	7.7%	3.5%

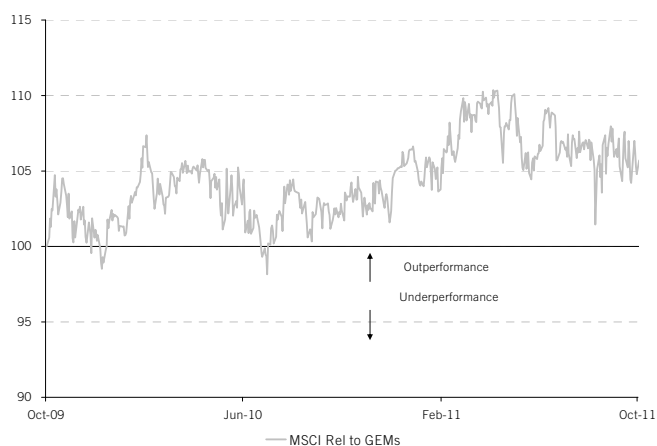
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 76. MSCI Index (\$) with Moving Averages



Source: MSCI, Datastream and Citi Investment Research and Analysis

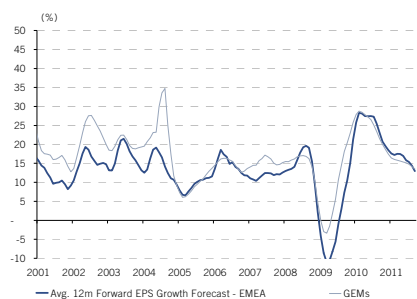
Figure 77. Performance Relative to GEMs



Source: MSCI, Datastream and Citi Investment Research and Analysis

Fundamentals and Valuation

Figure 78. Forward 12m EPS Growth (IBES)



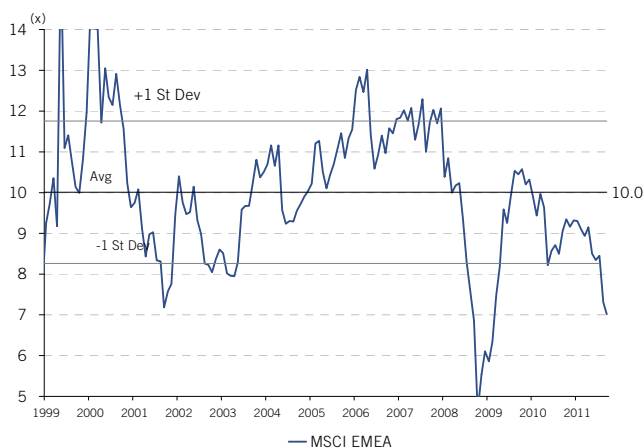
Source: MSCI, IBES, Datastream and CIRA

Figure 79. Trailing ROE



Source: MSCI, Datastream and CIRA

Figure 80. Forward 12m P/E (IBES)



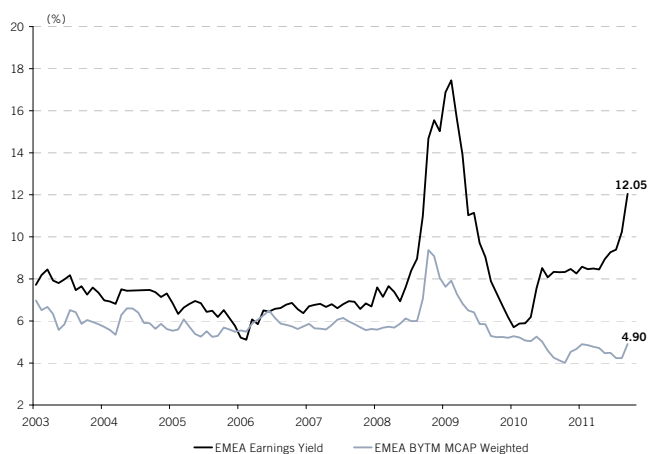
Source: MSCI, IBES, Datastream and CIRA

Figure 81. MSCI P/B



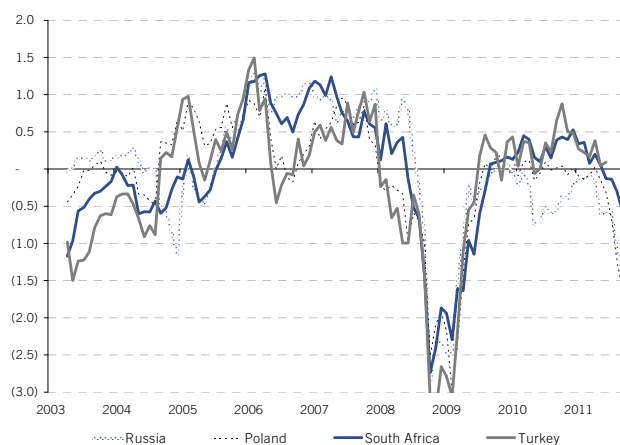
Source: MSCI, IBES, Datastream and CIRA

Figure 82. MSCI Weighted EMEA Debt Yield vs Earnings Yield



Source: JPM, MSCI, Datastream, FactSet and CIRA

Figure 83. Composite Valuation



Average of normalized forward P/E, trailing book, earnings yield, dividend yield.
Source: MSCI, IBES, Datastream and CIRA

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Countries

Brazil – Neutral

Figure 84. Country Breakdown

Weight in GEMs	14.6%
Weight in Region	65.2%
FF Mkt Cap (US\$, mn)	450.0
Sector Weights	
Energy (5)	20.4%
Materials (15)	23.1%
Financials (12)	24.3%
Cons Staples (9)	10.9%
Utilities (12)	6.0%
Consumer Disc (11)	4.4%
Industrials (7)	3.5%
Telecom (6)	3.7%
Info Tech (3)	2.7%
Health Care (3)	1.0%

Source: MSCI, FactSet and CIRA

Until we get more clarity out of the developed world (notably Europe's debt crisis), high-beta Brazil is unlikely to outperform GEMs. Currently, bellwether stock Vale is more closely correlated with Italian bonds than iron ore prices. That said, declining commodity prices, which were fairly resilient until early-September, are a concern. The biggest domestic issue remains inflation which, at 7.3%, is well above the upper end of the target range (6.5%). The timing of the 50bp Selic rate cut on August 30 was odd given also that the minimum wage will rise by ~14% in January. However, it is too early to say that the central bank has fully shifted away from inflation targeting towards growth, given the weaker global economy. Our view remains that Brazil should tackle the causes of high real rates – the huge size of the public sector – which is unlikely in the Dilma administration. Without more CB intervention, the BRL depreciation may persist. However, the bad news is fully priced into equities; Brazilian valuations are among the most depressed in GEMs.

Figure 85. Snapshot

Macro	
Population (mn)	190.8
GDP 2011e (US\$, bn)	2,408.0
GDP/Capita (US\$)	12,621
Real GDP Growth (2011e)	3.7%
Inflation (CPI) (2011e)	6.6%
Exports (2010)	201.6
GDP (2010)	1985.5
Exports/GDP (2010)	10.2%
Top 3 Exports	Trans, metals, food
CA Balance % of GDP (2011e)	-2.2%
Fiscal Bal % of GDP (2011e)	-2.5%
Market	
Total Mkt Cap (US\$, bn)	1,057
MSCI Free Float (US\$, bn)	450
Avg Daily Volume (US\$, mn)	3,783
Local Index [B'berg Ticker]	Bovespa [IBOV]
Other	
Credit Rating (S&P)	BBB-
Currency	Real (BRL)
Citi FX Forecast (2011e)	1.67
Leader / Next Election	Rousseff (2014)
Capital	Brasilia

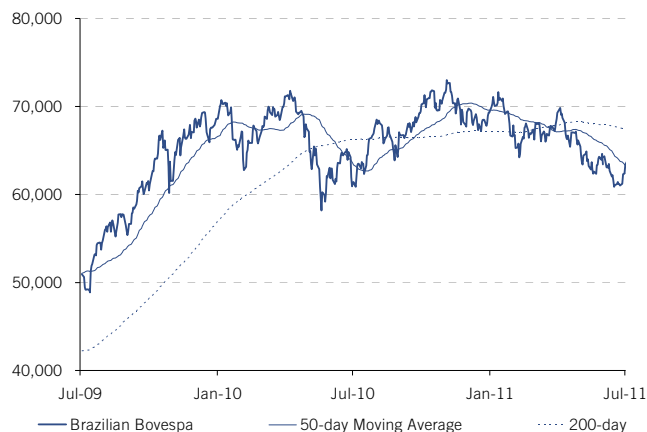
Source: MSCI, Bloomberg, EIU, CIRA

Figure 86. Map



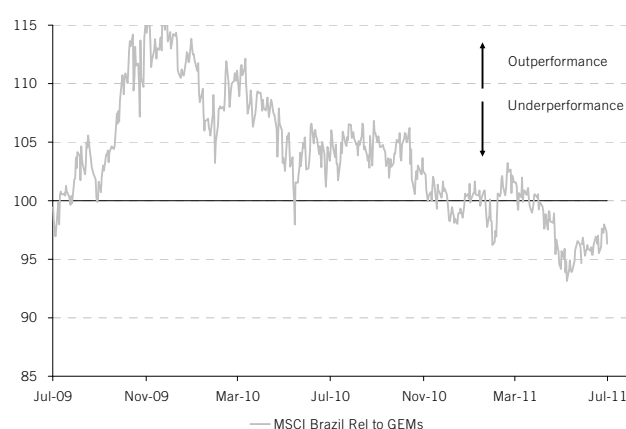
Source: US State Department

Figure 87. Local Index with Moving Averages



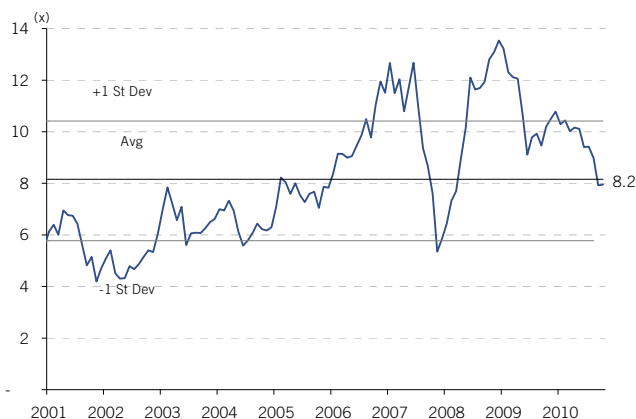
Source: Datastream and Citi Investment Research and Analysis

Figure 88. MSCI Index in USD Relative to GEMs



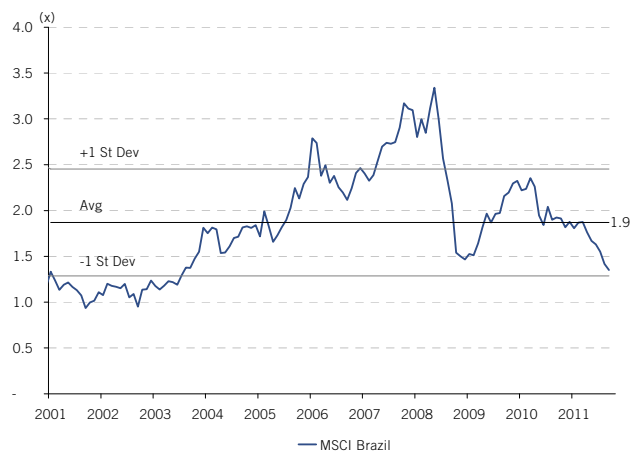
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 89. MSCI Forward P/E



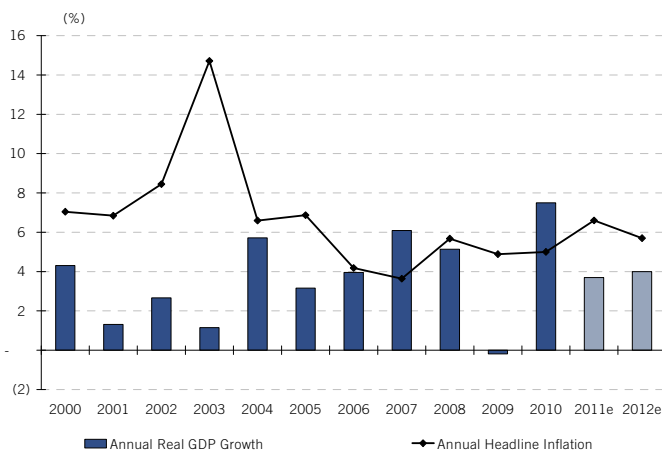
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 90. MSCI Trailing P/B



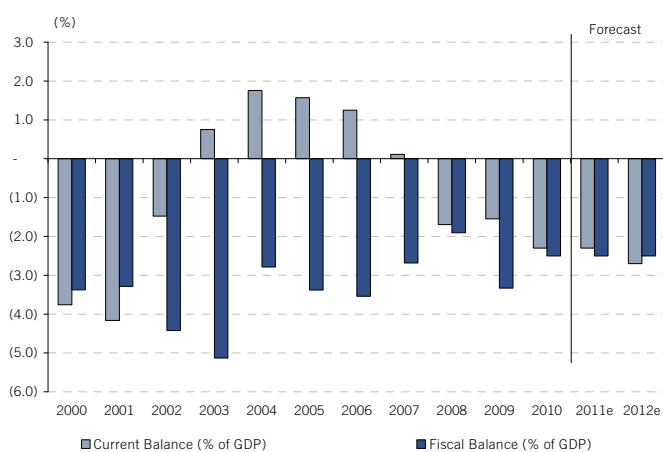
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 91. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 92. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 93. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	PETROBRAS PN	Oil Gas & Consumable Fuels	43,232	-32.2%	-4.0%	-39.9%	6.1	0.8	4.4	3.6
2	VALE PNA	Metals & Mining	42,335	-26.0%	-4.6%	-31.0%	4.9	1.6	4.2	4.7
3	ITAU UNIBANCO PN	Commercial Banks	35,707	-32.9%	-3.6%	-37.1%	10.6	2.0	n/a	3.4
4	PETROBRAS ON	Oil Gas & Consumable Fuels	33,519	-33.0%	-4.7%	-41.7%	6.6	0.8	4.8	3.3
5	VALE ON	Metals & Mining	29,931	-27.5%	-4.9%	-34.5%	5.3	1.7	4.6	4.4
6	BANCO BRADESCO PN	Commercial Banks	28,548	-26.4%	-2.5%	-26.0%	9.6	2.0	n/a	1.5
7	AMBEV PN	Beverages	22,971	-7.0%	-2.9%	-2.4%	21.2	7.1	17.8	3.4
8	ITAUSA PN	Commercial Banks	11,865	-33.1%	-4.8%	-38.5%	9.3	1.5	n/a	1.1
9	BRASIL FOODS ON	Food Products	11,344	2.2%	-4.3%	0.8%	18.7	2.0	11.6	2.0
10	BM&F BOVESPA	Diversified Financial Services	9,195	-28.4%	-2.7%	-41.7%	15.3	0.9	14.5	6.8
11	TELESP PN	Diversified Telecommunication	7,984	-7.7%	-5.7%	n/a	20.2	1.3	9.9	10.8
12	OGX PETROLEO	Oil Gas & Consumable Fuels	8,013	-33.7%	-7.1%	-52.2%	n/m	4.1	n/m	n/a

Performance in USD. Source: MSCI and FactSet

Chile – Overweight

Figure 94. Country Breakdown

Weight in GEMs	1.6%
Weight in Region	7.3%
FF Mkt Cap (US\$, mn)	50.2
Sector Weights	
Utilities (4)	26.7%
Materials (3)	21.3%
Industrials (2)	16.5%
Consumer Staples (3)	13.9%
Financials (3)	11.9%
Consumer Disc (1)	5.7%
Telecom (1)	4.0%
Energy	0.0%
Health Care	0.0%
Info Tech	0.0%

Source: MSCI, FactSet and CIRA

Within a GEMs portfolio, we upgrade Chile to Overweight. The worsening global economic outlook presents an opportunity for President Piñera to push for additional government spending in 2012, which bodes well for Chile's already strong economic growth story; our economists now forecast 4.5% GDP growth in 2012, which is decent, albeit down from a 5.3% forecast previously. Also, our economists expect the central bank to cut interest rates by 100bp (to 4.25%) in 2012. Resolution of the government's conflict with the educational community, which has taken a heavy toll on Piñera's approval ratings, is still some way off. Copper prices and global risk aversion will continue to dictate the direction of Chilean asset prices in Q4 and we expect a decent rally up to year-end. In 2011, Chilean equities have not acted as a safe haven as in the past, suggesting relatively attractive valuations, particularly relative to Chile's past.

Figure 95. Snapshot

Macro	
Population (mn)	17.1
GDP 2011e (US\$, bn)	235.4
GDP/Capita (US\$)	13,731
Real GDP Growth (2011e)	6.3%
Inflation (CPI) (2011e)	3.2%
Exports (2010)	71.0
GDP (2010)	204.0
Exports/GDP (2010)	34.8%
Top 3 Exports	Copper, fruit, paper
CA Balance % of GDP (2011e)	-0.8%
Fiscal Bal % of GDP (2011e)	0.9%
Market	
Total Mkt Cap (US\$, bn)	246
MSCI Free Float (US\$, bn)	50
Avg Daily Volume (US\$, mn)	232
Local Index [B'berg Ticker]	IPSA [IPSA]
Other	
Credit Rating (S&P)	A+
Currency	Peso (CLP)
Citi FX Forecast (2011e)	520
Leader / Next Election	S. Piñera (2013)
Capital	Santiago

Source: MSCI, Bloomberg, EIU, CIRA

Figure 96. Map



Source: US State Department

Figure 97. Local Index with Moving Averages



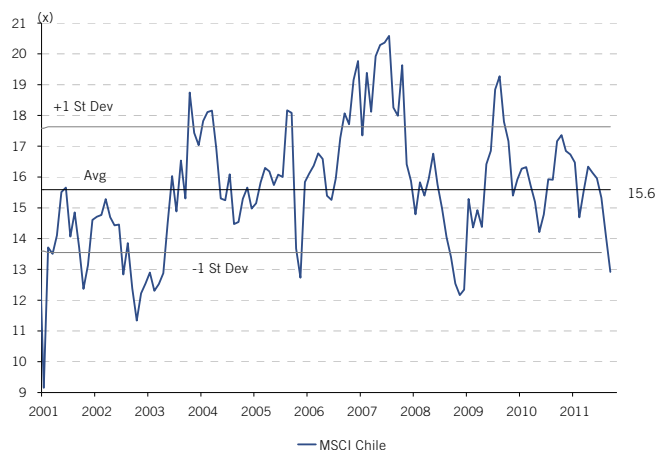
Source: Datastream and Citi Investment Research and Analysis

Figure 98. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 99. MSCI Forward P/E



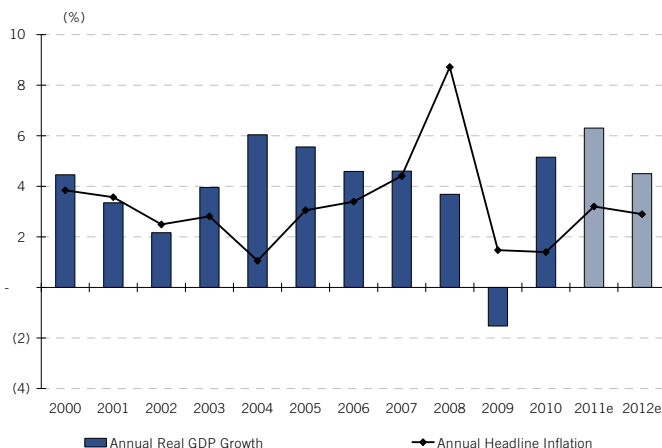
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 100. MSCI Trailing P/B



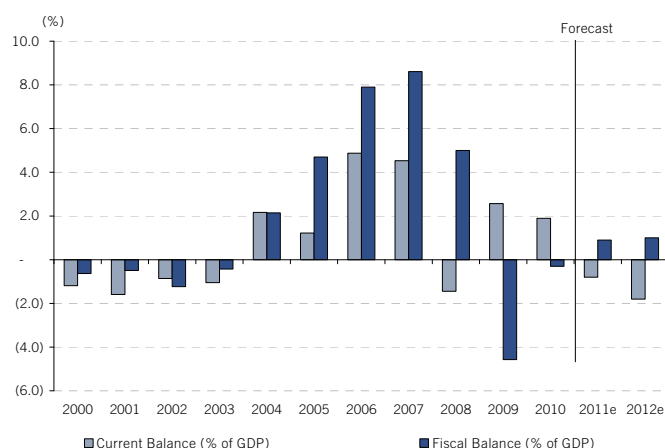
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 101. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 102. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 103. Key Companies (MSCI Index; end-Quarter)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	EMPRESAS COPEC	Industrial Conglomerates	5,445	-36.6%	-8.8%	-43.8%	15.4	1.7	11.2	0.8
2	ENDESA (CHILE)	Independent Power Producers	4,718	-23.9%	-8.7%	-29.9%	12.7	2.5	9.3	3.5
3	CENCOSUD	Food & Staples Retailing	4,892	-24.7%	-12.5%	-39.9%	22.2	2.4	15.2	1.2
4	SOQUIMICH B	Chemicals	4,631	-25.8%	-8.4%	-22.3%	30.4	7.3	22.6	0.6
5	ENERGIS	Electric Utilities	4,494	-25.2%	-7.8%	-31.7%	12.0	1.5	6.3	1.6
6	CMPC (EMPRESAS)	Paper & Forest Products	3,764	-35.7%	-12.3%	-43.6%	11.9	1.1	8.3	2.4
7	BCO SANTANDER CHILE (NEV)	Commercial Banks	3,371	-20.6%	-11.3%	-29.8%	14.8	3.8	n/a	4.1
8	FALABELLA	Multiline Retail	2,845	-24.2%	-9.6%	-36.2%	21.9	3.9	18.1	1.2
9	LAN AIRLINES	Airlines	2,847	-26.3%	-10.3%	-39.6%	18.7	5.4	10.4	2.7
10	CAP	Metals & Mining	2,279	-35.9%	-12.4%	-49.9%	13.8	3.1	11.4	2.5
11	ENTEL	Wireless Telecommunication S	2,030	-5.6%	-7.9%	-0.1%	11.9	3.3	5.5	2.2
12	COLBUN	Independent Power Producers	1,739	-12.3%	-9.4%	-21.6%	n/a	1.4	54.3	0.4

Performance in USD. Source: MSCI and FactSet

China – Overweight

Figure 104. Country Breakdown

Weight in GEMs	16.8%
Weight in Region	28.3%
FF Mkt Cap (US\$, mn)	518.7
Sector Weights	
Financials	31.7%
Energy	19.7%
Telecommunication Services	15.7%
Industrials	6.6%
Materials	5.5%
Consumer Discretionary	5.6%
Information Technology	6.3%
Consumer Staples	5.7%
Utilities	2.1%
Health Care	1.0%

Source: MSCI, FactSet and CIRA

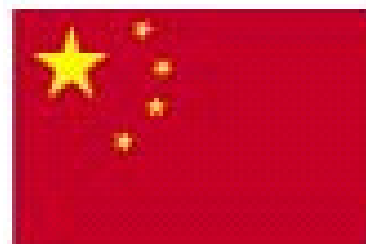
China was the worst performing market within EM Asia in Q3, down nearly 26% for MSCI China (in US\$). A series of factors – the worsening global economic outlook, lingering concerns over the EU debt crisis, still persistent inflation concerns, a tightening bias from the PBOC and weaker domestic activity indicators – dragged down market performance. Our economists believe that July will mark the peak of the current inflation cycle, and from here policy will be driven more by the external slowdown than by domestic inflation. Rate hikes should now have ended although actual cuts seem far off. China's valuations look very attractive within EM Asia. While MSCI China P/B at 1.56x is still above 1.16x seen in GFC trough, 32% of stocks actually trade cheaper on P/BV than their 2008 lows, the highest percentage amongst all Asian countries. Both on simple 2011 EPS and adjusted mid-cycle earnings, China is trading at the widest discount within EM Asia. We retain a small Overweight in China within GEMs; we favor Real Estate, Telecoms and Energy.

Figure 105. Snapshot

Macro	
Population (mn)	1,339.7
GDP 2011e (US\$, bn)	7,073.4
GDP/Capita (US\$)	5,280
Real GDP Growth (2011e)	9.0%
Inflation (CPI) (2011e)	5.3%
Exports (2010)	1577.9
GDP (2010)	5824.0
Exports/GDP (2010)	27.1%
Top 3 Exports	Elec., clothing, oil
CA Balance % of GDP (2011e)	4.0%
Fiscal Bal % of GDP (2011e)	-2.0%
Market	
Total Mkt Cap (US\$, bn)	3,340
MSCI Free Float (US\$, bn)	519
Avg Daily Volume (US\$, mn)	28,905
Local Index [B'berg Ticker]	Shanghai [SHCOMP]
Other	
Credit Rating (S&P)	AA-
Currency	Yuan/RMB (CNY)
Citi FX Forecast (2011e)	6.30
Leader / Next Election	Hu Jintao (2012)
Capital	Beijing

Volumes incl Shanghai and Shenzhen exchanges
Source: MSCI, Bloomberg, EIU, CIRA

Figure 106. Flag



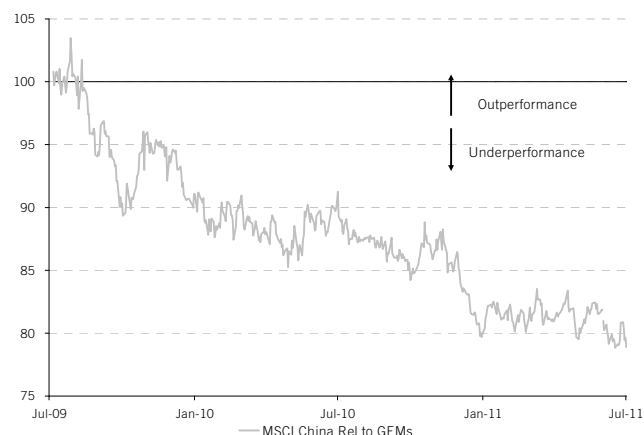
Source: Economist Intelligence Unit

Figure 107. Local Index with Moving Averages



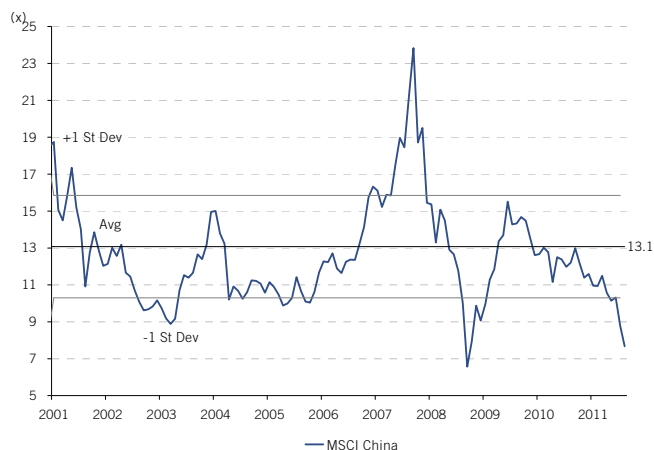
Source: Datastream and Citi Investment Research and Analysis

Figure 108. MSCI Index in USD Relative to GEMs



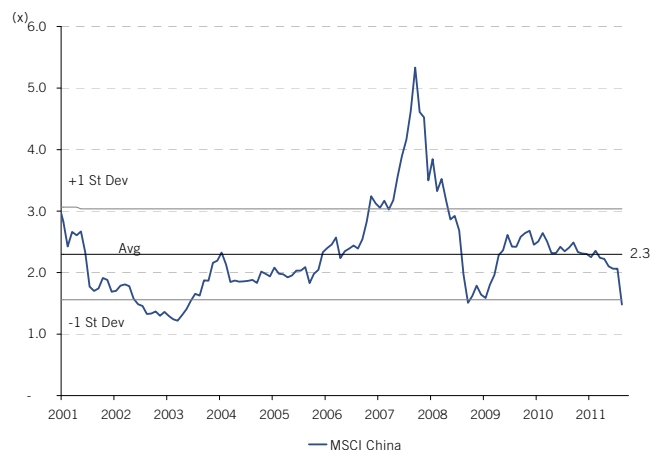
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 109. MSCI Forward P/E



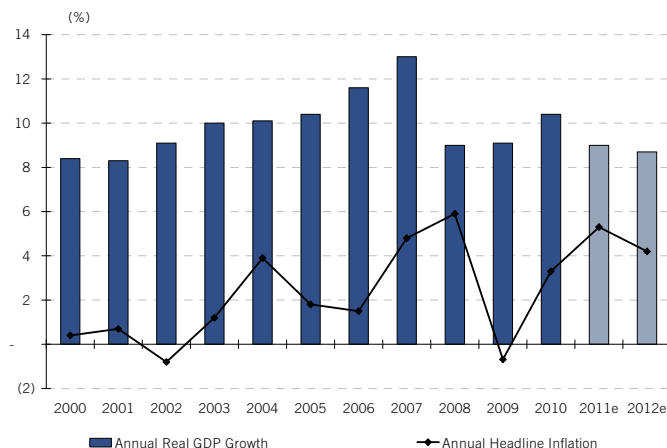
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 110. MSCI Trailing P/B



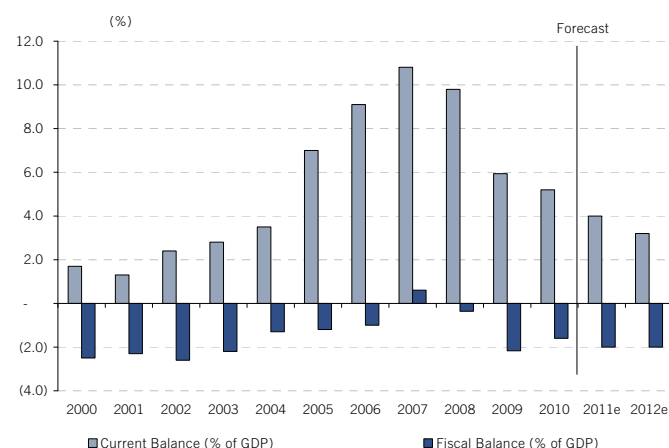
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 111. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 112. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 113. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	CHINA MOBILE	Wireless Telecommunication S	59,623	7.0%	-4.2%	-4.4%	10.3	2.1	5.9	4.1
2	CHINA CONSTRUCTION BK H	Commercial Banks	29,586	-25.8%	-7.3%	-36.4%	6.3	1.3	n/a	5.4
3	ICBC H	Commercial Banks	29,813	-35.4%	-8.4%	-39.6%	5.8	1.3	n/a	5.9
4	CNOOC	Oil Gas & Consumable Fuels	29,838	-28.4%	-12.8%	-38.6%	7.0	1.9	5.3	3.8
5	PETROCHINA CO H	Oil Gas & Consumable Fuels	26,208	-15.1%	-6.5%	-11.2%	10.3	1.5	5.6	4.4
6	BANK OF CHINA H	Commercial Banks	21,054	-35.4%	-9.8%	-46.2%	4.7	0.8	n/a	7.3
7	TENCENT HOLDINGS LIM(CN)	Internet Software & Services	21,326	-22.3%	-11.3%	-13.9%	25.9	9.9	23.0	0.3
8	CHINA LIFE INSURANCE H	Insurance	17,970	-29.4%	-8.3%	-45.8%	15.3	2.2	n/a	2.6
9	CHINA PETRO & CHEM H	Oil Gas & Consumable Fuels	16,555	-2.0%	-1.8%	1.2%	7.1	1.2	3.9	3.7
10	CHINA SHENHUA ENERGY H	Oil Gas & Consumable Fuels	13,555	-16.3%	-11.4%	-15.8%	12.2	2.5	9.1	2.9
11	CHINA UNICOM	Diversified Telecommunication	12,288	3.5%	-10.1%	31.1%	78.9	1.5	9.1	0.6
12	PING AN INSURANCE H	Insurance	9,773	-45.0%	-12.6%	-55.6%	13.5	2.0	n/a	1.5

Performance in USD. Source: MSCI and FactSet

Colombia – Underweight

Figure 114. Country Breakdown

Weight in GEMs	0.9%
Weight in Region	4.2%
FF Mkt Cap (US\$, mn)	29.0
Sector Weights	
Financials (3)	43.3%
Energy (1)	27.9%
Materials (2)	14.6%
Utilities (1)	8.0%
Consumer Staples (1)	6.2%
Industrials	0.0%
Consumer Disc	0.0%
Health Care	0.0%
Info Tech	0.0%
Telecom	0.0%

Source: MSCI, FactSet and CIRA

Although the Colombian market has interesting long-term structural drivers, we worry about the economy's vulnerability to the global slowdown, recent deterioration in the security situation and stretched valuations. Lower external demand and the recent fall in commodity prices led us to downgrade our macro outlook; for 2012, our economists now expect GDP growth of 4.8%, down from 5.5%. There has been a resurgence in violence in recent months, which has investors asking about the ability of President Santos to keep the country safe after ex-President Uribe's impressive track record. Valuations are expensive, even relative to Colombian levels as local pension fund activity and Colombia's low beta within emerging markets have driven up prices. Despite a somewhat precarious fiscal balance, Colombia has recently been promoted to investment grade by Moody's and Fitch. US approval of a Free Trade Agreement is likely in the coming months, which may put Colombia back in the limelight, if only temporarily.

Figure 115. Snapshot

Macro	
Population (mn)	46.0
GDP 2011e (US\$, bn)	325.0
GDP/Capita (US\$)	7,064
Real GDP Growth (2011e)	5.0%
Inflation (CPI) (2011e)	3.3%
Exports (2010)	40.8
GDP (2010)	286.0
Exports/GDP (2010)	14.3%
Top 3 Exports	Oil, coal, coffee
CA Balance % of GDP (2011e)	-2.2%
Fiscal Bal % of GDP (2011e)	-3.5%
Market	
Total Mkt Cap (US\$, bn)	182
MSCI Free Float (US\$, bn)	29
Avg Daily Volume (US\$, mn)	140
Local Index [B'berg Ticker]	IGBC [IGBC]
Other	
Credit Rating (S&P)	BBB-
Currency	Peso (COP)
Citi FX Forecast (2011e)	1850
Leader / Next Election	J.M. Santos (2014)
Capital	Bogotá

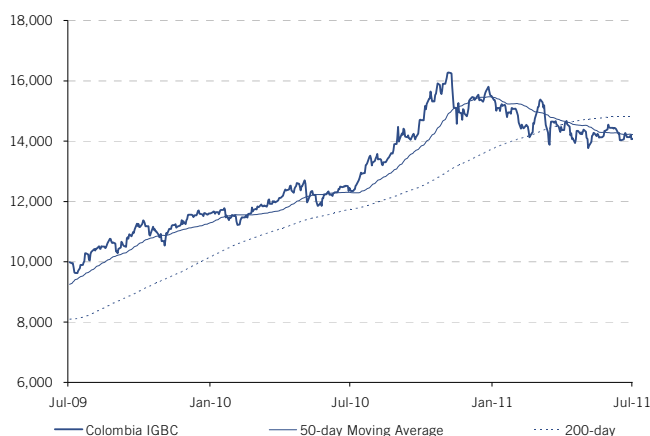
Source: MSCI, Bloomberg, EIU, CIRA

Figure 116. Map



Source: US State Department

Figure 117. Local Index with Moving Averages



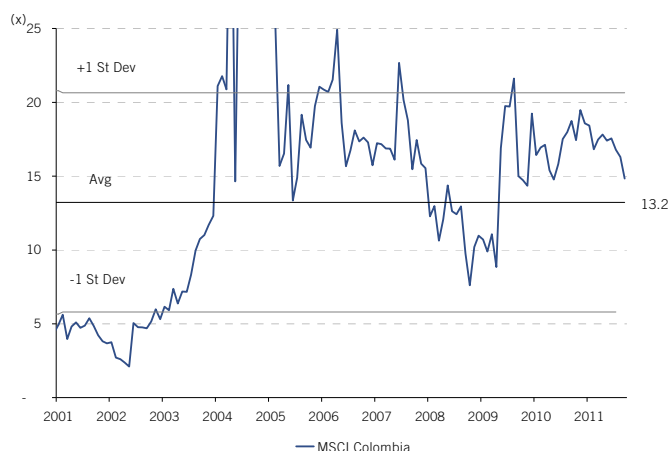
Source: Datastream and Citi Investment Research and Analysis

Figure 118. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 119. MSCI Forward P/E



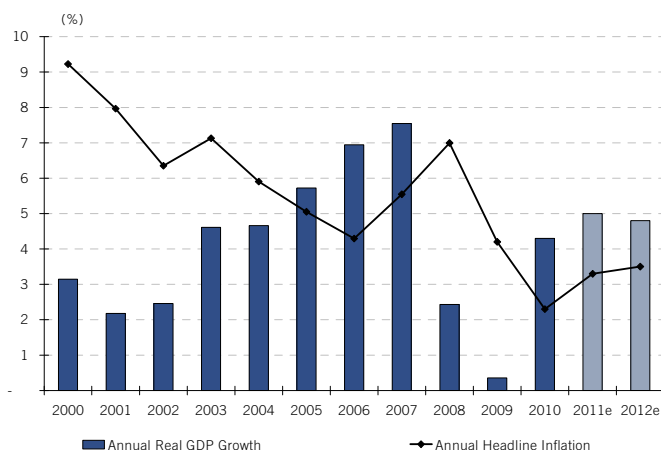
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 120. MSCI Trailing P/B



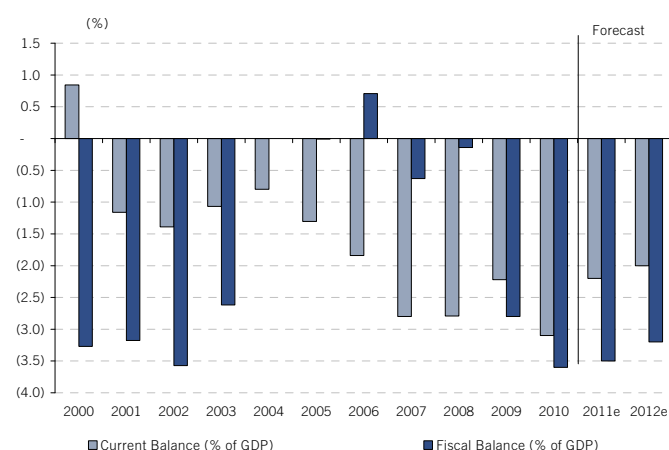
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 121. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 122. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 123. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	ECOPETROL	Oil Gas & Consumable Fuels	8,097	-7.6%	-1.1%	-7.3%	13.8	4.3	10.6	4.5
2	GPO. INVER. SURAMERICANA	Diversified Financial Services	4,035	-19.3%	-1.9%	-13.5%	22.7	0.9	22.1	0.9
3	BANCOLOMBIA PREF	Commercial Banks	3,878	-16.2%	0.2%	-10.4%	16.1	2.6	n/a	2.5
4	BANCOLOMBIA ORD	Commercial Banks	3,364	-10.9%	-4.9%	-9.2%	17.0	2.8	n/a	2.4
5	INVERSIONES ARGOS	Construction Materials	2,619	-16.3%	-4.0%	-16.5%	25.3	1.1	14.6	1.1
6	ALMACENES EXITO	Food & Staples Retailing	1,785	-13.9%	-2.4%	-4.6%	24.9	1.8	n/a	2.9
7	INTERCONEXION ELEC (NEW)	Electric Utilities	2,331	-17.1%	-1.9%	-19.7%	31.3	2.0	12.5	1.5
8	CEMENTOS ARGOS (NEW)	Construction Materials	1,627	-11.2%	-3.0%	-7.7%	25.1	1.1	14.8	1.8
9	CORP FIN COLOMBIANA ORD	Diversified Financial Services	1,275	-4.8%	-1.9%	3.3%	9.8	2.2	8.7	2.4

Performance in USD. Source: MSCI and FactSet

Czech Republic – Neutral

Figure 124. Country Breakdown

Weight in GEMs	0.4%
Weight in Region	2.0%
FF Mkt Cap (US\$, Bn)	14.9
Sector Weights	
Utilities	55.6%
Financials	24.8%
Telecommunication Services	19.6%
Consumer Discretionary	0.0%
Consumer Staples	0.0%
Energy	0.0%
Health Care	0.0%
Industrials	0.0%
Information Technology	0.0%
Materials	0.0%

Source: MSCI, FactSet and CIRA

In light of recent sharp downgrades to European growth, our forecasts for Czech Republic have been cut also, with contraction of exports and little or no growth in industrial production expected for 2012. So far, currency weakness has not been as pronounced in the Czech Republic as elsewhere in the region, including in CE3 specifically. However, our FX strategists see some downside to the koruna -- which has been one of the more resilient CEE currencies. The main Czech stocks that Citi covers are relatively defensive, despite their proximity to Europe, and we see some value in their high dividend yield of 7.9%, well above the domestic bond yield. While relative PE and PB metrics do not make Czech equities look particularly attractive in absolute terms, the market has de-rated relative to its history and is closer than any other market except Poland to "trough" 2008 valuation multiples. The Czech Republic is, by far, our favorite within CE3 and we upgrade the market to Neutral within GEMs from underweight.

Figure 125. Snapshot

Macro	
Population (mn)	10.5
GDP 2011e (US\$, bn)	208.3
GDP/Capita (US\$)	19,835
Real GDP Growth (2011e)	1.9%
Inflation (CPI) (2011e)	1.8%
Exports (2010)	126.4
GDP (2010)	192.2
Exports/GDP (2010)	65.8%
Top 3 Exports	Mach, semi, chem
CA Balance % of GDP (2011e)	-3.8%
Fiscal Bal % of GDP (2011e)	-4.5%
Market	
Total Mkt Cap (US\$, bn)	40.9
MSCI Free Float (US\$, bn)	11
Avg Daily Volume (US\$, mn)	n/a
Local Index [B'berg Ticker]	Prague [PX]
Other	
Credit Rating (S&P)	AA-
Currency	Koruna (CZK)
Citi FX Forecast (2011e)	19.6
Leader / Next Election	P. Necas (2013)
Capital	Prague

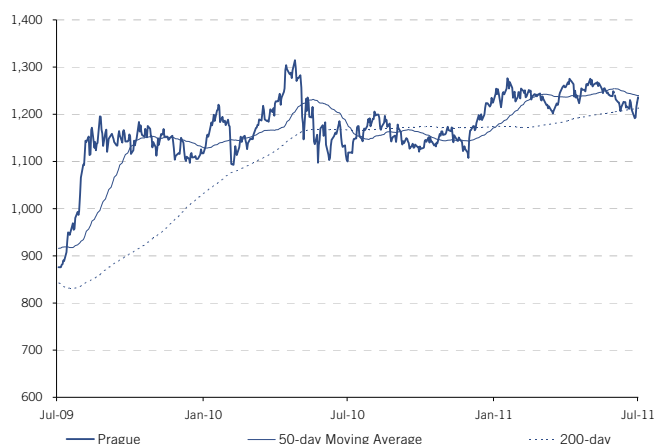
Source: MSCI, Bloomberg, EIU, CIRA

Figure 126. Map



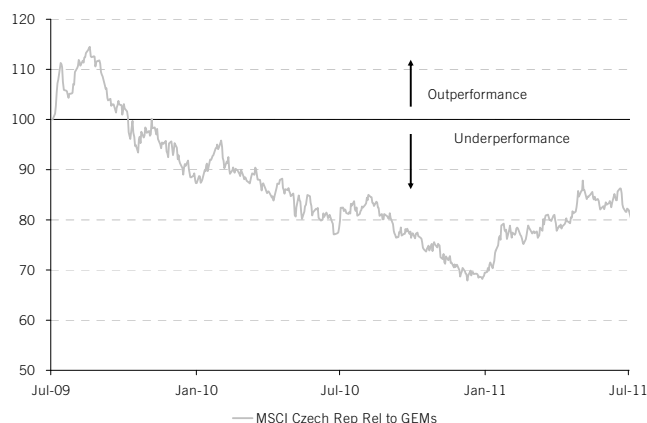
Source: US State Department

Figure 127. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 128. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 129. MSCI Forward P/E



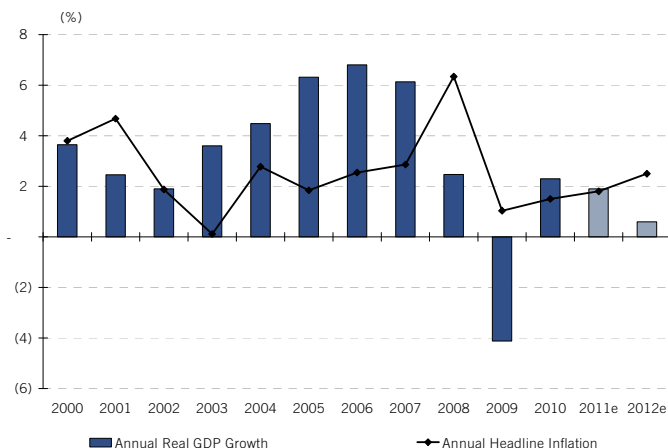
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 130. MSCI Trailing P/B



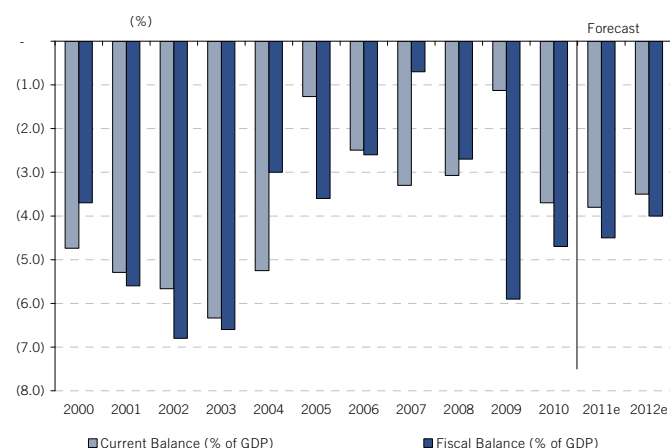
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 131. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 132. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 133. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	CEZ CESKE ENER. ZAVODY	Electric Utilities	6,221	-25.0%	-3.7%	-11.3%	10.4	1.7	6.2	7.0
2	KOMERCNI BANKA	Commercial Banks	2,836	-23.5%	-5.5%	-25.7%	10.9	1.8	n/a	7.9
3	TELEFONICA CZECH REP.	Diversified Telecommunication	2,399	-18.2%	-2.3%	1.9%	10.9	2.0	6.0	10.2

Performance in USD. Source: MSCI and FactSet

Egypt – Underweight

Figure 134. Country Breakdown

Weight in GEMs	0.3%
Weight in Region	1.8%
FF Mkt Cap (US\$, Bn)	13.5
Sector Weights	
Financials	44.1%
Industrials	31.5%
Telecommunication Services	24.4%
Consumer Discretionary	0.0%
Consumer Staples	0.0%
Energy	0.0%
Health Care	0.0%
Information Technology	0.0%
Materials	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

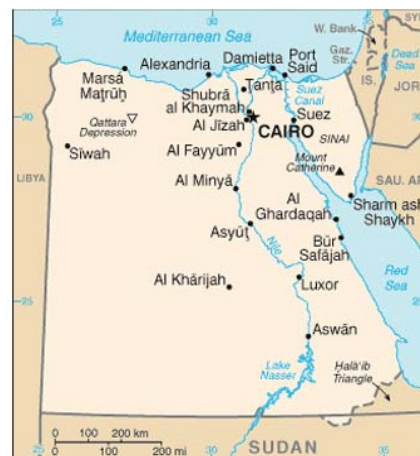
Having underperformed significantly earlier in the year (-23.7% in Q1 v. +1.7% for GEMS), the Egyptian equity market has been more resilient recently amidst the global turmoil. This is due both to lower foreign ownership and the fact that Egypt's key risks are largely political and domestic in nature and have little to do with global events. The public trial of former president, Hosni Mubarak, will remain a source of tension, but should drop into the background as the parliamentary elections move center stage in November 2011, followed by a presidential poll in 2012. Although the outcome of the elections is very unclear, any new government will have to outline a more coherent economic policy in 2012; however, their policy choices will be curtailed by the country's weak fiscal position, large balance of payments deficit, and rising debt stock. On current analyst forecasts, the market is very attractively priced (2012 P/E 7.2x), although the downside risks to these forecasts are high under a scenario of prolonged domestic unrest.

Figure 135. Snapshot

Macro	
Population (mn)	83.0
GDP 2011e (US\$, bn)	205.4
GDP/Capita (US\$)	2,476
Real GDP Growth (2011e)	1.4%
Inflation (CPI) (2011e)	9.8%
Exports (2010)	25.0
GDP (2010)	203.7
Exports/GDP (2010)	12.3%
Top 3 Exports	Oil, semis, metal
CA Balance % of GDP (2011e)	-3.5%
Fiscal Bal % of GDP (2011e)	-9.0%
Market	
Total Mkt Cap (US\$, bn)	58.6
MSCI Free Float (US\$, bn)	11
Avg Daily Volume (US\$, mn)	74
Local Index [B'berg Ticker]	Hermes [HERMES]
Other	
Credit Rating (S&P)	BB
Currency	Pound (EGP)
Citi FX Forecast (2011e)	5.98
Leader / Next Election	Mohamed Hussein TANTAWI (Nov-11)
Capital	Cairo

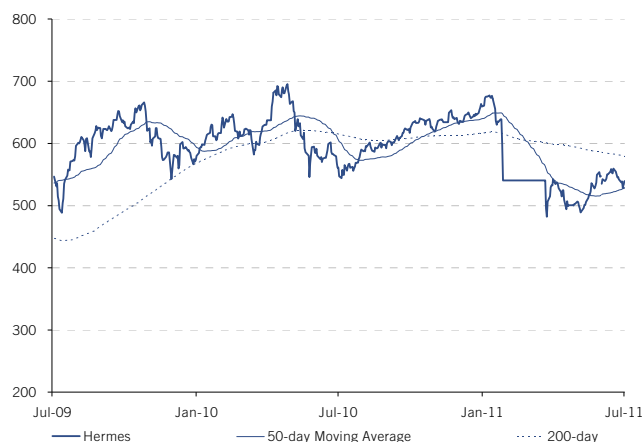
Source: MSCI, Bloomberg, EIU, CIRA

Figure 136. Map



Source: US State Department

Figure 137. Local Index with Moving Averages



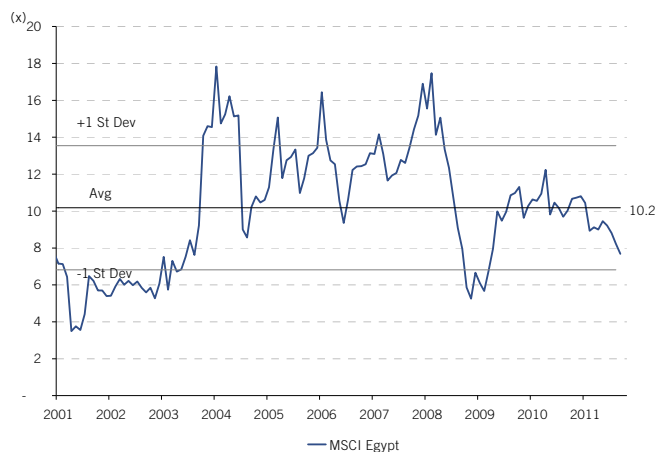
Source: Datastream and Citi Investment Research and Analysis

Figure 138. MSCI Index in USD Relative to GEMS



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 139. MSCI Forward P/E



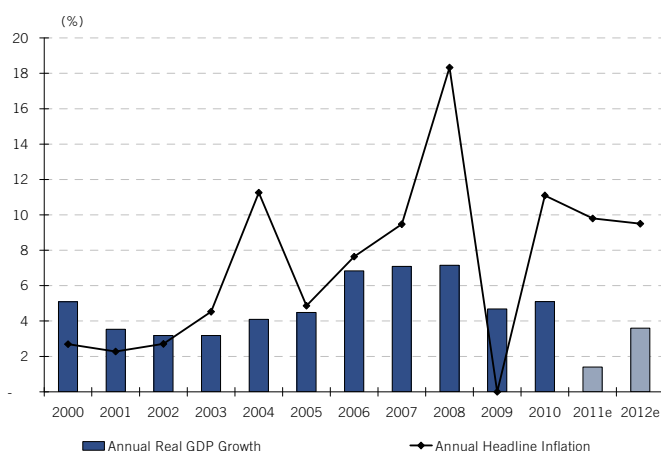
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 140. MSCI Trailing P/B



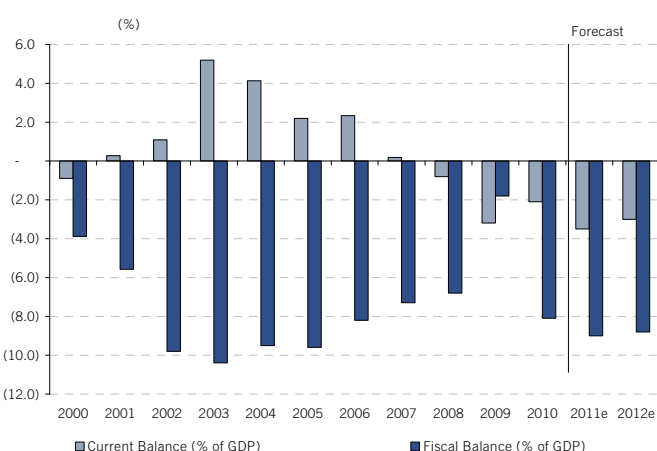
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 141. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 142. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 143. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	ORASCOM CONSTRUCTION INC	Construction & Engineering	3,356	-21.0%	-4.6%	-31.1%	11.3	2.4	8.4	5.9
2	COMMERCIAL INT'L BANK	Commercial Banks	2,154	-22.9%	-3.0%	-54.3%	7.8	1.6	n/a	4.4
3	ORASCOM TELECOM HOLDING	Wireless Telecommunication S	1,460	-18.6%	-2.9%	-27.4%	n/m	0.8	4.0	n/a
4	TELECOM EGYPT	Diversified Telecommunication	848	-0.7%	-0.6%	-20.7%	8.2	0.9	4.3	8.8
5	EFG-HERMES HOLDING	Capital Markets	805	-16.7%	-1.9%	-52.9%	27.2	0.8	20.3	n/a
6	EGYPT KUWAIT HOLDING	Capital Markets	678	-21.7%	0.0%	-40.6%	5.6	1.2	4.4	7.4
7	TMG HOLDING	Real Estate Management & De	574	-24.8%	-2.3%	-58.3%	9.7	0.3	8.4	n/a
8	EGYPTIAN MOBILE SERVICES	Wireless Telecommunication S	466	-28.4%	-0.1%	-45.4%	17.1	3.5	3.6	13.3
9	NATIONAL STE GENERALE BK	Commercial Banks	355	-35.8%	0.9%	-54.6%	6.1	1.1	n/a	5.4

Performance in USD. Source: MSCI and FactSet

Hungary – Underweight

Figure 144. Country Breakdown

Weight in GEMs	0.4%
Weight in Region	2.3%
FF Mkt Cap (US\$, Bn)	16.8
Sector Weights	
Financials	46.1%
Energy	28.5%
Health Care	16.4%
Telecommunication Services	9.0%
Consumer Discretionary	0.0%
Consumer Staples	0.0%
Industrials	0.0%
Information Technology	0.0%
Materials	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

GDP growth is forecast to be only 1.4% in 2011 and 1.1% in 2012; with risks of a higher than expected fiscal deficit in 2012. Currency depreciation has been dramatic, with some risk of rate hikes being needed to defend the Forint if there were to be significant further depreciation. The equity market has been an underperformer within GEMS (by over 900bp so far this year), recently giving up its gains from 1H11 and more. The country's very close proximity to the Euro Area is a major concern, although Hungary also has its own home-grown problems. In particular, the big stock of FX-denominated mortgages is worrying given the forint's sharp depreciation (down 20% versus the dollar since the beginning of May). The recent FX mortgage repayment legislation – to be paid for by the banking sector – and wider uncertainty about the regulatory environment have had a negative impact on investor sentiment, as have the populist policies of the Fidesz government. The earnings growth outlook is poor for 2011 and uncertain for 2012.

Figure 145. Snapshot

Macro	
Population (mn)	10.0
GDP 2011e (US\$, bn)	135.0
GDP/Capita (US\$)	13,562
Real GDP Growth (2011e)	1.4%
Inflation (CPI) (2011e)	3.9%
Exports (2010)	93.4
GDP (2010)	130.4
Exports/GDP (2010)	71.6%
Top 3 Exports	Mach, food, raw mat
CA Balance % of GDP (2011e)	3.0%
Fiscal Bal % of GDP (2011e)	1.9%
Market	
Total Mkt Cap (US\$, bn)	18.2
MSCI Free Float (US\$, bn)	9
Avg Daily Volume (US\$, mn)	81
Local Index [B'berg Ticker]	Budapest [BUX]
Other	
Credit Rating (S&P)	BBB-
Currency	Forint (HUF)
Citi FX Forecast (2011e)	260
Leader / Next Election	V. Orbán (2014)
Capital	Budapest

Source: MSCI, Bloomberg, EIU, CIRA

Figure 146. Map



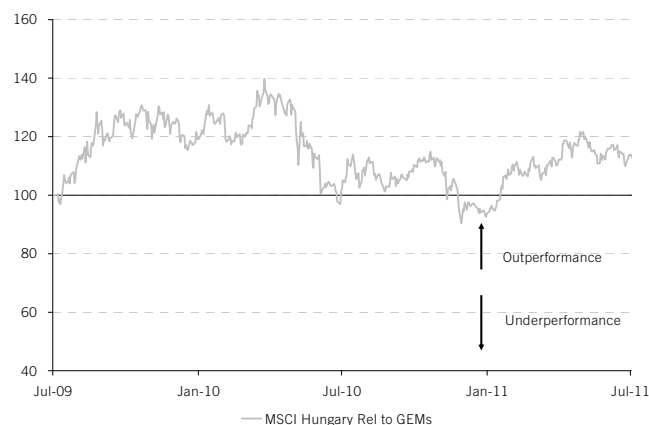
Source: Economist Intelligence Unit

Figure 147. Local Index with Moving Averages



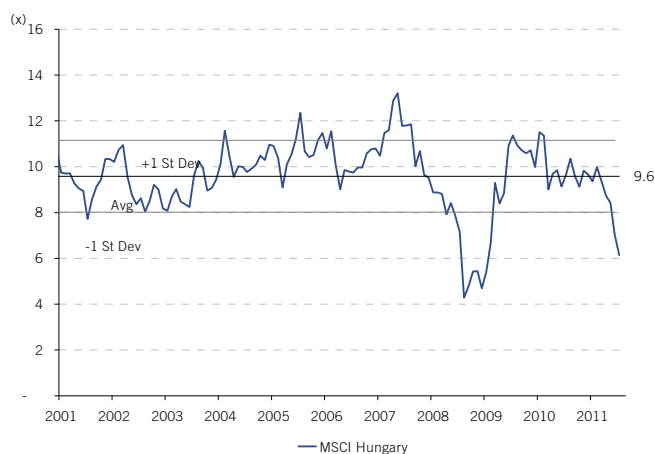
Source: Datastream and Citi Investment Research and Analysis

Figure 148. MSCI Index in USD Relative to GEMS



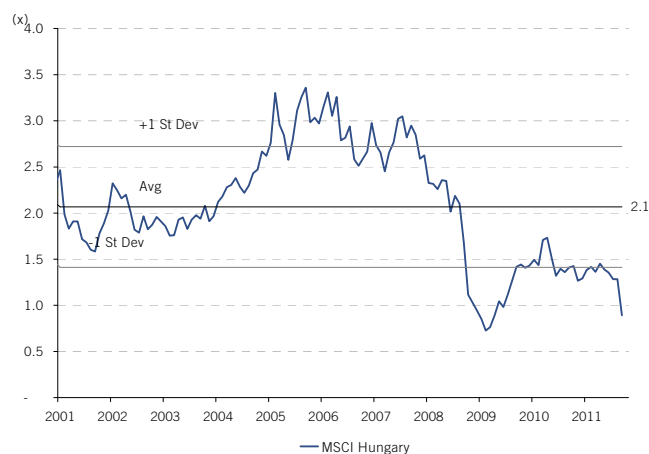
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 149. MSCI Forward P/E



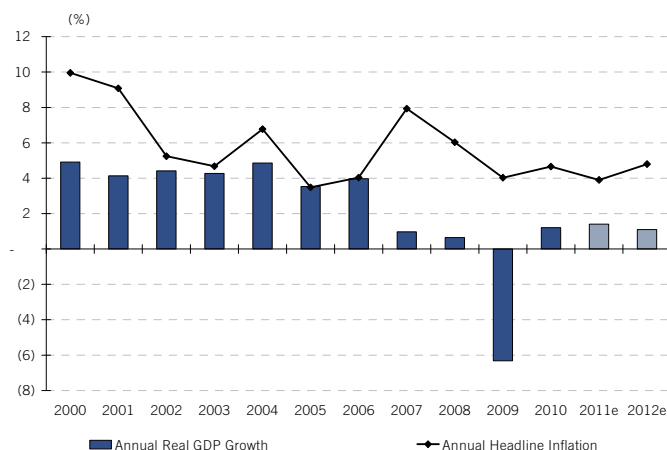
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 150. MSCI Trailing P/B



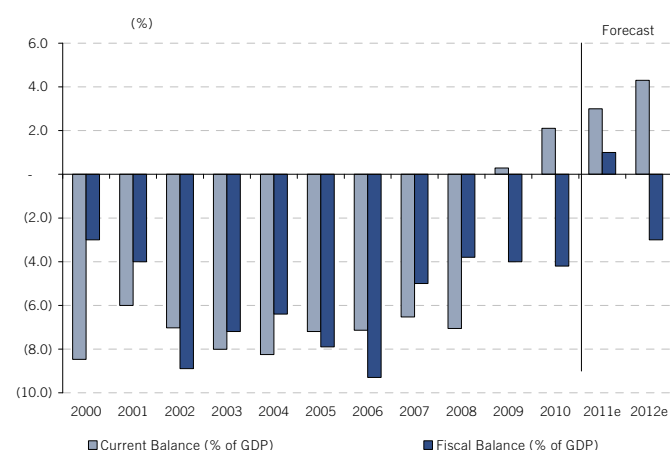
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 151. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 152. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 153. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	OTP BANK	Commercial Banks	3,535	-54.4%	-10.0%	-44.8%	7.3	0.7	n/a	2.3
2	MOL MAGYAR OLAJ GAZIPAR	Oil Gas & Consumable Fuels	2,849	-40.6%	-2.1%	-33.4%	5.4	1.0	2.7	n/a
3	RICHTER GEDEON	Pharmaceuticals	1,914	-30.7%	0.3%	-33.0%	11.3	1.3	7.7	2.9
4	MAGYAR TELEKOM	Diversified Telecommunication	1,049	-30.5%	-0.8%	-10.8%	9.9	1.0	3.4	10.2

Performance in USD. Source: MSCI and FactSet

India – Neutral

Figure 154. Country Breakdown

Weight in GEMs	7.6%
Weight in Region	12.7%
FF Mkt Cap (US\$, mn)	233.7
Sector Weights	
Financials	27.9%
Information Technology	16.2%
Energy	13.0%
Materials	9.8%
Industrials	7.4%
Consumer Staples	7.4%
Utilities	5.0%
Consumer Discretionary	8.2%
Health Care	4.8%
Telecommunication Services	0.3%

Source: MSCI, FactSet and CIRA

While MSCI India (-31 YTD%) has been the worst performing Asian market in 2011, Q3 performance was more in-line. Q2 earnings generally met expectations; however, India's earnings revisions index remains the weakest in Asia, hovering close to previous historical troughs. Valuation premiums have fallen sharply given recent underperformance, but remain somewhat demanding particularly compared to the hurdle sovereign interest rates. MSCI India dividend yield is 1.4% vs a 10-year sovereign bond yield of 8.3%. In fact, there is no Indian stock with a dividend yield above the sovereign yield; also India is the only Asian market where the dividend/bond yield ratio is below its 10-year average. While we stay Underweight the market within Asia, we raise India to Neutral within GEMs based on: i) its status as a major commodity importer, as prices fall; ii) lower valuations; iii) a short-term peak in rates; iv) high ROEs. Within India, we like Banks, Tech and Infrastructure.

Figure 155. Snapshot

Macro	
Population (mn)	1,188.9
GDP 2011e (US\$, bn)	1,920.9
GDP/Capita (US\$)	1,616
Real GDP Growth (2011e)	7.6%
Inflation (CPI) (2011e)	9.5%
Exports (2010)	178.7
GDP (2010)	1381.9
Exports/GDP (2010)	12.9%
Top 3 Exports	Eng, oil, gems
CA Balance % of GDP (2011e)	-3.0%
Fiscal Bal % of GDP (2011e)	-8.3%
Market	
Total Mkt Cap (US\$, bn)	1,190
MSCI Free Float (US\$, bn)	234
Avg Daily Volume (US\$, mn)	3,127
Local Index [B'berg Ticker]	Sensex 30 [SENSEX]
Other	
Credit Rating (S&P)	BBB-
Currency	Rupee (INR)
Citi FX Forecast (2011e)	44.60
Leader / Next Election	M. Singh (2012)
Capital	New Delhi

Source: MSCI, Bloomberg, EIU, CIRA

Figure 156. Flag



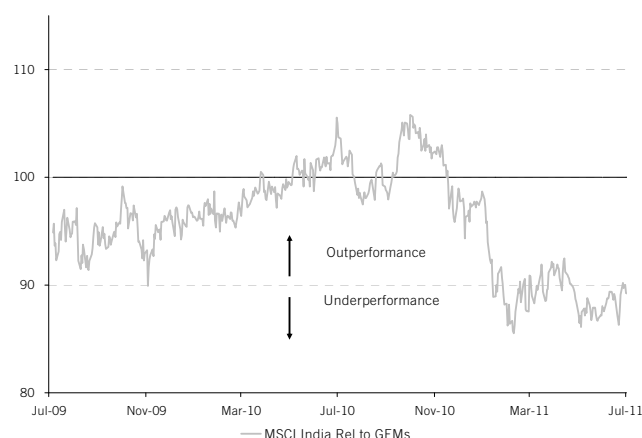
Source: US State Department

Figure 157. Local Index with Moving Averages



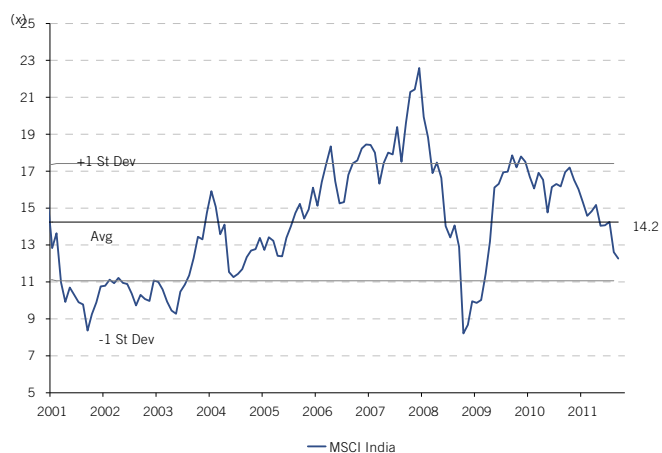
Source: Datastream and Citi Investment Research and Analysis

Figure 158. MSCI Index in USD Relative to GEMs



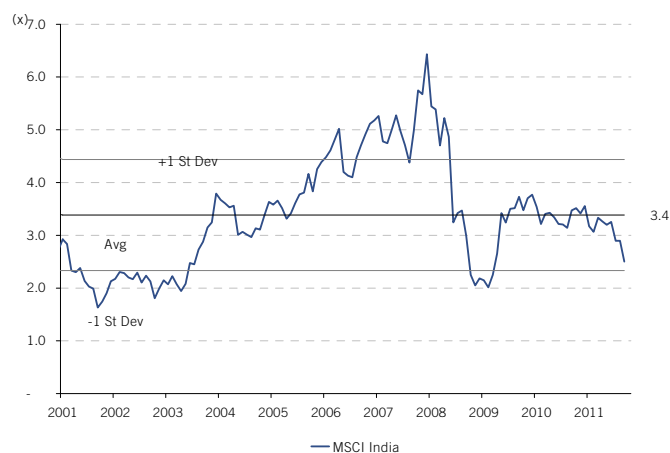
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 159. MSCI Forward P/E



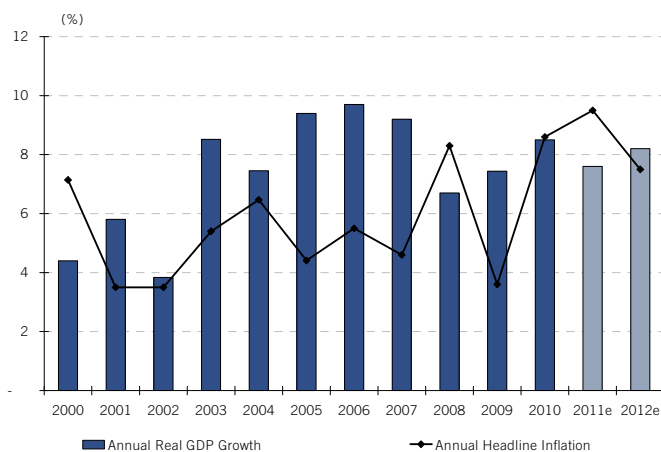
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 160. MSCI Trailing P/B



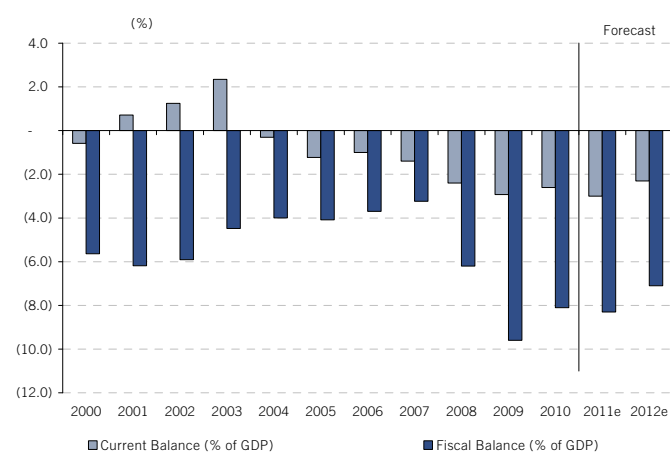
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 161. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 162. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 163. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	INFOSYS	IT Services	22,272	-20.6%	-4.6%	-35.9%	20.6	5.6	18.4	1.2
2	RELIANCE INDUSTRIES	Oil Gas & Consumable Fuels	21,613	-17.9%	-5.4%	-34.0%	12.6	1.7	7.6	1.0
3	HDFC BANK	Commercial Banks	14,457	-15.2%	-4.8%	-13.4%	25.6	4.3	n/a	0.7
4	HOUSING DEV FINANCE CORP	Thriffs & Mortgage Finance	14,206	-17.2%	-4.0%	-22.9%	20.1	4.4	n/a	1.4
5	ICICI BANK	Commercial Banks	14,414	-27.0%	-9.3%	-36.7%	15.8	1.8	n/a	1.6
6	TATA CONSULTANCY	IT Services	9,949	-20.0%	0.0%	-18.8%	21.2	8.3	19.6	1.4
7	ITC	Tobacco	9,072	-11.0%	-4.0%	-0.7%	29.0	9.3	25.6	1.4
8	HINDUSTAN UNILEVER	Household Products	6,007	-9.5%	-5.0%	-5.6%	30.8	27.1	28.1	1.9
9	LARSEN & TOUBRO	Construction & Engineering	5,746	-32.1%	-2.3%	-38.8%	18.3	3.3	14.0	1.1
10	MAHINDRA & MAHINDRA	Automobiles	5,044	4.7%	-4.3%	-9.7%	15.8	3.5	12.0	1.3
11	TATA MOTORS	Automobiles	4,802	-28.4%	-6.8%	-49.3%	4.6	2.2	3.0	2.6
12	AXIS BANK	Commercial Banks	4,702	-27.9%	-6.6%	-35.7%	11.8	2.2	n/a	1.4

Performance in USD. Source: MSCI and FactSet

Indonesia – Underweight

Figure 164. Country Breakdown

Weight in GEMs	3.0%
Weight in Region	5.0%
FF Mkt Cap (US\$, mn)	91.7
Sector Weights	
Financials	32.2%
Energy	10.4%
Consumer Discretionary	16.0%
Consumer Staples	12.8%
Telecommunication Services	11.4%
Materials	7.2%
Utilities	3.6%
Industrials	4.6%
Health Care	1.8%
Information Technology	0.0%

Source: MSCI, FactSet and CIRA

While MSCI Indonesia remains one of the best performing EMs in 2011 (down only 10% in US\$), it suffered significant corrections in both August and September along with other Asian markets. The last two weeks of September saw fund redemptions intensify sharply, according to EPFR. This reminds us that liquidation outflows remains a key risk for this market, especially in light of its high foreign ownership rate of 38%, the highest in EM Asia. It is also, on average, the second biggest Overweight market of Asia-ex fund managers, also according to EPFR. While domestic fundamentals look solid for the medium term, we are Underweight Indonesia, given: i) that its demanding valuations, with P/B at 3.7x (the highest within Asia), make the market particularly vulnerable in a volatile risk-averse market environment; and ii) its recent outperformance.

Figure 165. Snapshot

Macro	
Population (mn)	237.6
GDP 2011e (US\$, bn)	804.8
#VALUE!	3,387
Real GDP Growth (2011e)	6.5%
Inflation (CPI) (2011e)	5.0%
Exports (2010)	158.2
GDP (2010)	706.4
Exports/GDP (2010)	22.4%
Top 3 Exports	Textile, gas, oil
CA Balance % of GDP (2011e)	0.1%
Fiscal Bal % of GDP (2011e)	-1.5%
Market	
Total Mkt Cap (US\$, bn)	338
MSCI Free Float (US\$, bn)	92
Avg Daily Volume (US\$, mn)	448
Local Index [B'berg Ticker]	Jakarta [JCI]
Other	
Credit Rating (S&P)	BB+
Currency	Rupiah (IDR)
Citi FX Forecast (2011e)	9300
Leader / Next Election	S. Bambang (2014)
Capital	Jakarta

Source: MSCI, Bloomberg, EIU, CIRA

Figure 166. Map



Source: US State Department

Figure 167. Local Index with Moving Averages



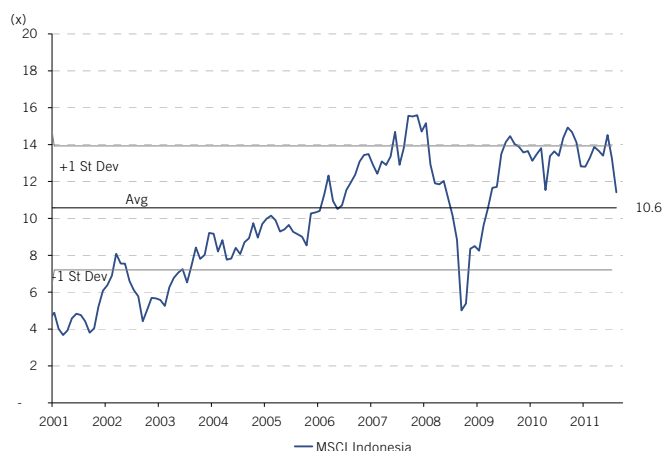
Source: Datastream and Citi Investment Research and Analysis

Figure 168. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 169. MSCI Forward P/E



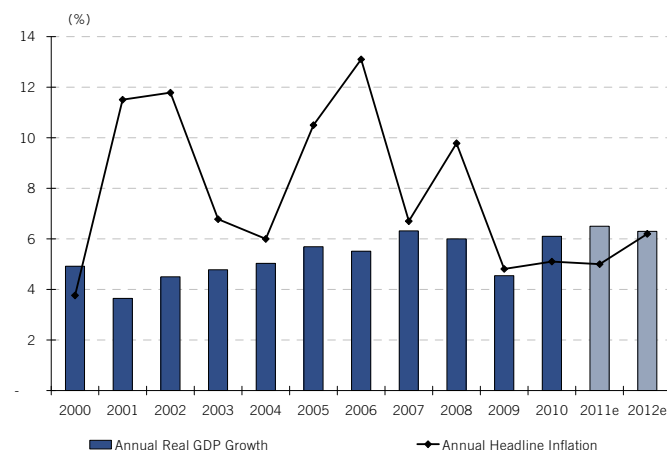
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 170. MSCI Trailing P/B



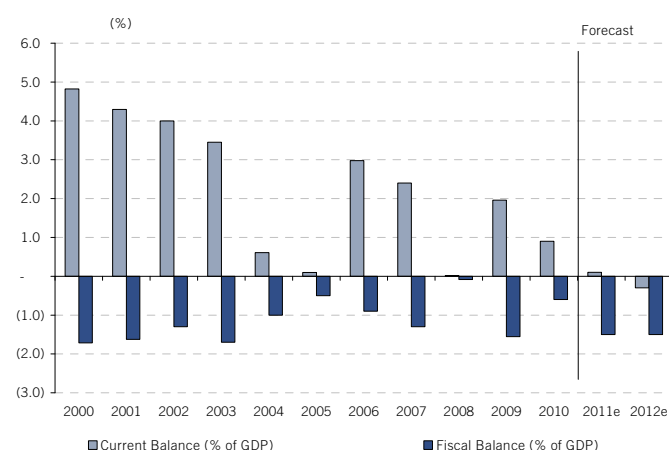
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 171. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 172. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 173. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	ASTRA INTERNATIONAL	Automobiles	14,657	-2.3%	-9.0%	8.9%	15.6	4.8	12.5	2.7
2	BANK CENTRAL ASIA	Commercial Banks	10,691	-1.8%	-7.7%	13.8%	20.2	5.1	n/a	1.5
3	TELEKOMUNIKASI INDONESIA	Diversified Telecommunication	8,715	0.9%	-3.2%	-5.2%	13.4	3.5	5.9	4.2
4	BANK RAKYAT INDONESIA	Commercial Banks	7,314	-12.2%	-10.6%	2.1%	10.4	3.5	n/a	1.6
5	BANK MANDIRI	Commercial Banks	6,623	-14.6%	-13.0%	-12.1%	12.8	2.6	n/a	2.2
6	UNITED TRACTORS	Machinery	4,201	-13.8%	-13.2%	-14.5%	18.1	3.5	11.1	2.0
7	GUDANG GARAM	Tobacco	3,448	2.8%	-3.9%	29.3%	21.7	4.6	18.5	1.7
8	PERUSAHAAN GAS NEGARA	Gas Utilities	3,320	-35.2%	-6.8%	-42.3%	10.3	5.0	8.1	5.8
9	BUMI RESOURCES	Oil Gas & Consumable Fuels	3,456	-35.5%	-18.5%	-46.1%	10.0	4.2	10.5	2.1
10	UNILEVER INDONESIA	Household Products	2,865	8.0%	-5.8%	-3.4%	34.2	36.1	32.6	2.7
11	BANK NEGARA INDONESIA	Commercial Banks	3,130	-6.2%	-15.9%	-17.1%	14.2	2.0	n/a	1.8
12	SEMEN GRESIK	Construction Materials	2,800	-15.7%	-6.0%	-15.4%	12.7	4.0	11.3	3.7

Performance in USD. Source: MSCI and FactSet

Korea – Overweight

Figure 174. Country Breakdown

Weight in GEMs	14.7%
Weight in Region	24.7%
FF Mkt Cap (US\$, mn)	453.2
Sector Weights	
Information Technology	27.4%
Industrials	14.4%
Financials	14.7%
Consumer Discretionary	19.5%
Materials	12.9%
Consumer Staples	4.9%
Telecommunication Services	1.3%
Energy	3.0%
Utilities	1.1%
Health Care	0.7%

Source: MSCI, FactSet and CIRA

With global recession fears as a key market focus recently, cyclical markets such as Korea underperformed in Q3 within GEMs. MSCI Korea was down 23.3% in the quarter vs GEMs at -23.1%. Korea remains the cheapest market in Asia, with both 2011 P/B and P/E being the lowest amongst all Asian countries and among the lowest in GEMs. Assuming current share prices are fair value, Korea is implying 0% EPS growth to perpetuity based on a Cost of Equity of 12%. Applying the same methodology to the whole market, 70%+ of stocks notionally imply negative growth rates to perpetuity. However, the leverage of Korean corporates is now down to just 44% from as high as 320%. Assuming there are no changes in volatility of EBIT margins and asset turns, the ROE in Korea should be less volatile. If so, the Korean valuation discounts should also slowly, but surely, disappear. Korea remains our biggest Overweight within GEMs. Within the market, we like tech, construction and industrials.

Figure 175. Snapshot

Macro	
Population (mn)	49.0
GDP 2011e (US\$, bn)	1,115.8
GDP/Capita (US\$)	22,777
Real GDP Growth (2011e)	3.7%
Inflation (CPI) (2011e)	4.5%
Exports (2010)	466.4
GDP (2010)	1014.5
Exports/GDP (2010)	46.0%
Top 3 Exports	Elec, semis, chem
CA Balance % of GDP (2011e)	1.4%
Fiscal Bal % of GDP (2011e)	0.5%
Market	
Total Mkt Cap (US\$, bn)	906
MSCI Free Float (US\$, bn)	453
Avg Daily Volume (US\$, mn)	8,135
Local Index [B'berg Ticker]	KOSPI [KOSPI]
Other	
Credit Rating (S&P)	A
Currency	Won (KRW)
Citi FX Forecast (2011e)	1200
Leader / Next Election	Lee Myung-bak ('12)
Capital	Seoul

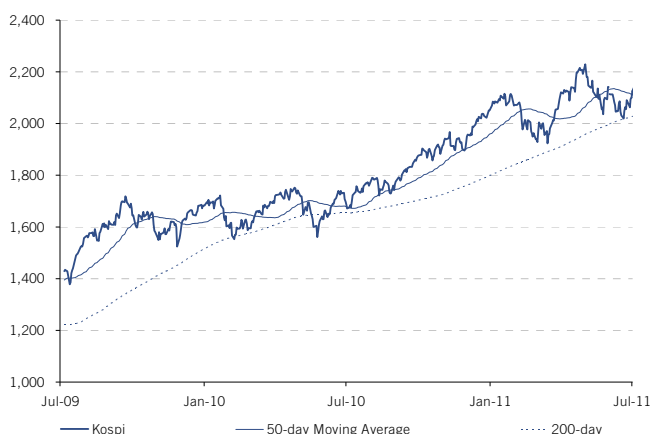
Source: MSCI, Bloomberg, EIU, CIRA

Figure 176. Map



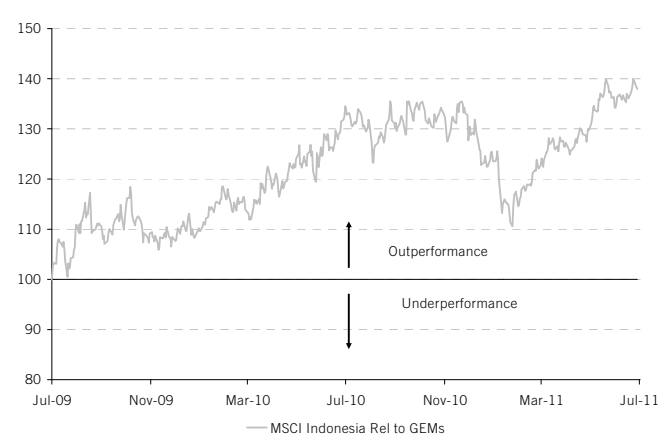
Source: US State Department

Figure 177. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 178. MSCI Index in USD Relative to GEMs



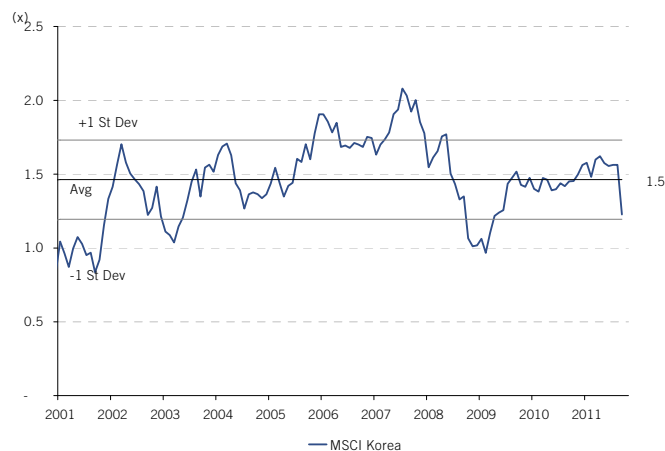
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 179. MSCI Forward P/E



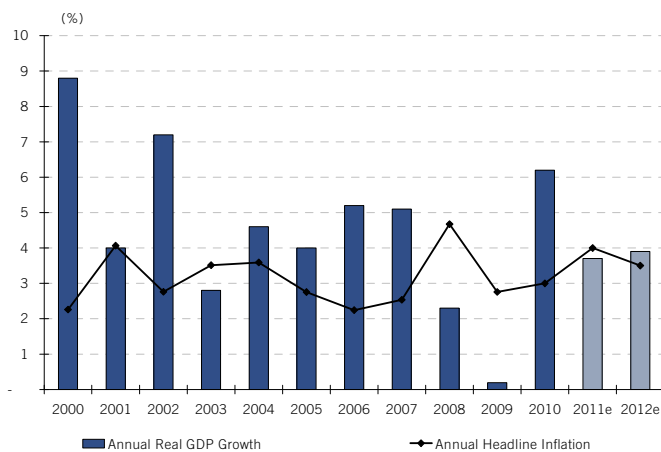
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 180. MSCI Trailing P/B



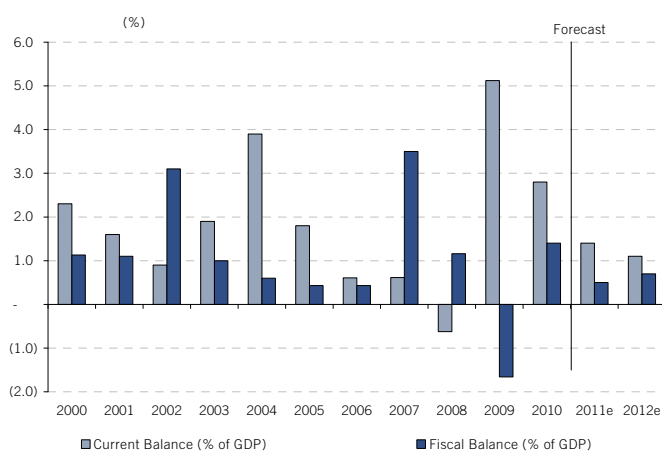
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 181. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 182. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 183. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	SAMSUNG ELECTRONICS CO	Semiconductors & Semiconductors	78,773	-7.8%	-2.8%	-17.1%	8.7	1.4	4.8	0.7
2	HYUNDAI MOTOR CO	Automobiles	27,618	-19.3%	-4.2%	12.3%	9.5	1.8	5.8	0.7
3	POSCO	Metals & Mining	20,593	-27.5%	-6.3%	-31.2%	7.3	0.8	4.2	2.7
4	HYUNDAI MOBIS	Auto Components	19,753	-22.6%	-5.0%	9.9%	12.4	2.8	10.5	0.4
5	SHINHAN FINANCIAL GROUP	Commercial Banks	15,216	-25.2%	-7.2%	-29.0%	9.1	1.0	n/a	1.8
6	KIA MOTORS CORP	Automobiles	14,603	-9.9%	-5.1%	30.0%	9.3	2.6	6.9	0.7
7	KB FINANCIAL GROUP	Commercial Banks	12,571	-27.6%	-4.4%	-38.1%	176.5	0.9	n/a	0.3
8	LG CHEM	Chemicals	12,640	-40.4%	-9.6%	-28.5%	10.3	2.9	8.0	1.2
9	SAMSUNG ELECTRONICS PRE	Semiconductors & Semiconductors	9,961	-7.6%	-0.1%	-15.4%	5.9	1.0	3.3	1.0
10	HYUNDAI HEAVY INDUSTRIES	Machinery	9,971	-42.6%	-6.3%	-42.7%	4.2	1.1	3.4	2.5
11	HYNIX SEMICONDUCTOR	Semiconductors & Semiconductors	9,122	-22.8%	-4.4%	-18.0%	6.0	1.6	2.6	0.7
12	NHN CORP	Internet Software & Services	7,883	8.9%	-1.4%	-5.0%	20.0	7.1	17.2	n/a

Performance in USD. Source: MSCI and FactSet

Malaysia – Overweight

Figure 184. Country Breakdown

Weight in GEMs	3.4%
Weight in Region	5.7%
FF Mkt Cap (US\$, mn)	104.4
Sector Weights	
Financials	31.9%
Industrials	17.9%
Consumer Staples	11.9%
Consumer Discretionary	11.7%
Telecommunication Services	11.2%
Utilities	9.4%
Materials	4.8%
Energy	1.2%
Health Care	0.0%
Information Technology	0.0%

Source: MSCI, FactSet and CIRA

Malaysia's defensive nature helped to a certain extent during the stormy Q3. MSCI Malaysia fell 18% in US\$, outperforming MSCI GEMs (-23%). The level of earnings revisions in Malaysia has fallen sharply during Q3 and is now the second worst in Asia, just after India. With downside risks to growth dominating inflation risks, our economists expect no more rate hikes; however, monetary easing seems premature given elevated headline inflation. Our economists expect the burden of supporting domestic demand will likely fall on fiscal policy, particularly given the election in 2013. Valuations are still not attractive with 2011P/E and P/B at a premium to Asia ex, although they are more in line with its history on a P/E basis. We upgrade Malaysia to Overweight based on its defensive qualities, the Underweight held by Asia ex fund managers and its low foreign ownership of just 20%, which suggests that de-risking liquidation risk should be lower. We like Banks and Plantations.

Figure 185. Snapshot

Macro	
Population (mn)	28.3
GDP 2011e (US\$, bn)	265.8
GDP/Capita (US\$)	9,392
Real GDP Growth (2011e)	4.7%
Inflation (CPI) (2011e)	3.2%
Exports (2010)	198.9
GDP (2010)	237.8
Exports/GDP (2010)	83.6%
Top 3 Exports	Elec, chem, palm oil
CA Balance % of GDP (2011e)	10.5%
Fiscal Bal % of GDP (2011e)	-5.4%
Market	
Total Mkt Cap (US\$, bn)	351
MSCI Free Float (US\$, bn)	104
Avg Daily Volume (US\$, mn)	584
Local Index (B'berg Ticker)	FTSE BursaKL (FBM KLCI)
Other	
Credit Rating (S&P)	A-
Currency	Ringgit (MYR)
Citi FX Forecast (2011e)	3.20
Leader / Next Election	A. Badawi (2013)
Capital	Kuala Lumpur

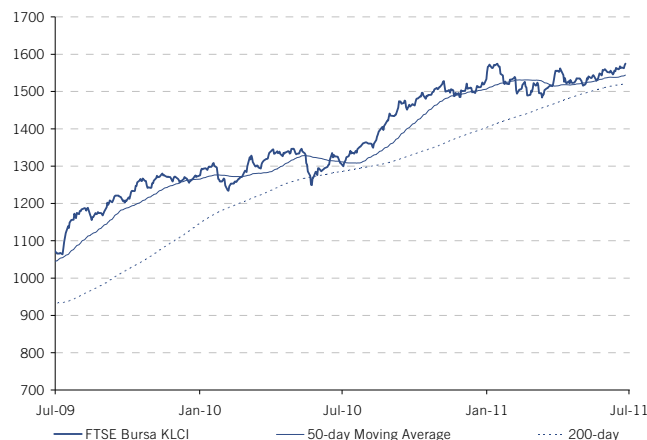
Source: MSCI, Bloomberg, EIU, CIRA

Figure 186. Map



Source: US State Department

Figure 187. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 188. MSCI Index in USD Relative to GEMs



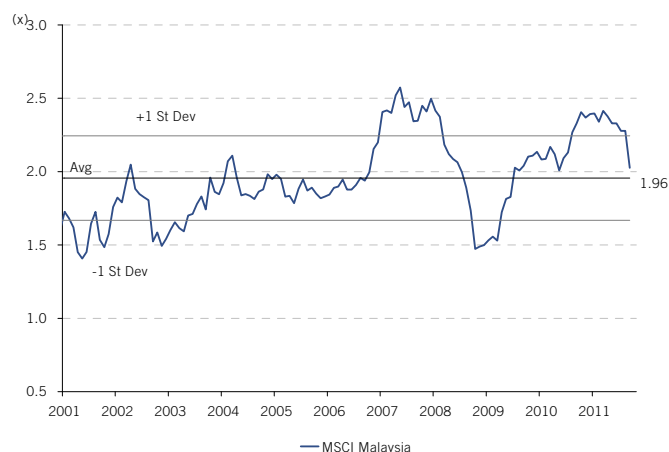
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 189. MSCI Forward P/E



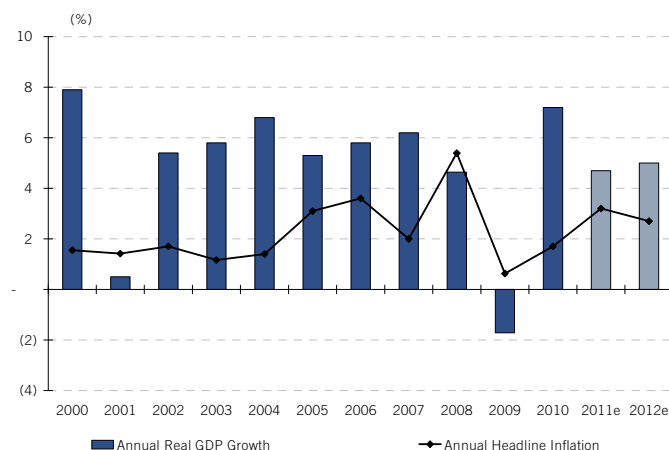
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 190. MSCI Trailing P/B



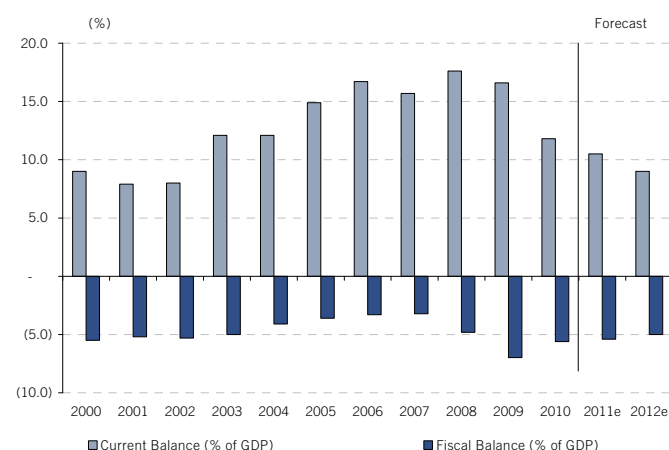
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 191. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 192. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 193. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	BUMIPUTRA-COMMERCE HLT	Commercial Banks	10,548	-26.2%	-2.3%	-22.6%	14.1	2.1	n/a	2.9
2	MALAYAN BANKING	Commercial Banks	8,433	-15.4%	-1.7%	-10.6%	13.4	1.9	n/a	6.8
3	SIME DARBY	Industrial Conglomerates	7,149	-13.5%	-2.3%	-9.5%	13.8	2.1	10.8	1.3
4	GENTING	Hotels Restaurants & Leisure	5,823	-23.3%	-2.6%	-23.4%	12.4	2.0	8.4	0.7
5	IOI CORP	Food Products	4,671	-17.0%	-4.9%	-26.5%	13.4	2.5	12.1	3.7
6	TENAGA NASIONAL	Electric Utilities	4,414	-27.8%	-3.5%	-28.0%	21.8	1.0	5.4	3.6
7	PETRONAS CHEMICALS GROL	Chemicals	4,180	-25.8%	-3.1%	-5.7%	14.6	2.2	11.3	3.4
8	PUBLIC BANK FGN	Commercial Banks	4,096	-12.0%	-1.5%	-9.7%	13.0	3.1	n/a	3.8
9	MAXIS BHD	Wireless Telecommunication S	3,749	-8.2%	-0.9%	-4.0%	17.3	5.0	12.2	7.5
10	AXIATA GROUP	Wireless Telecommunication S	3,655	-13.2%	0.7%	-5.8%	26.2	2.0	7.2	2.2
11	RESORTS WORLD	Hotels Restaurants & Leisure	3,254	-7.8%	-0.8%	-0.8%	14.2	1.8	11.8	1.8
12	KUALA LUMPUR KEPONG	Food Products	3,175	-9.9%	-4.6%	-12.1%	15.8	3.3	13.9	2.8

Performance in USD. Source: MSCI and FactSet

Mexico – Underweight

Figure 194. Country Breakdown

Weight in GEMs	4.6%
Weight in Region	20.7%
FF Mkt Cap (US\$, mn)	142.8
Sector Weights	
Telecom (2)	34.8%
Consumer Staples (7)	28.3%
Materials (5)	15.3%
Consumer Disc (3)	10.6%
Financials (3)	6.8%
Industrials (3)	4.2%
Energy	0.0%
Health Care	0.0%
Info Tech	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

Within our GEMs and regional portfolios we stay underweight in Mexico. Downside risks for activity have emerged given a weaker US economy; our economists have cut their 2012 GDP growth forecast for Mexico to 3.5% from 3.9%. In addition, we now see Banxico keeping rates on hold at 4.5% until March 2013. Mexico has little exposure to the Asian growth story, unlike other economies in Latin America. Also, important to our Underweight, valuations are stretched even by Mexican standards. Drug-related violence continues, although budget talks will likely dominate local headlines in coming weeks. Meanwhile, as the July 1, 2012 Presidential election nears, PRI's likely candidate Enrique Nieto, former governor of Mexico State, is the one to beat. The candidate that looks increasingly likely to represent the PAN is Congressional leader Josefina Vazquez Mota. Finally, if structural reforms move forward – a long term positive – this could still be disruptive short term.

Figure 195. Snapshot

Macro	
Population (mn)	112.3
GDP 2011e (US\$, bn)	1,154.3
GDP/Capita (US\$)	10,279
Real GDP Growth (2011e)	4.1%
Inflation (CPI) (2011e)	3.4%
Exports (2010)	297.6
GDP (2010)	1035.8
Exports/GDP (2010)	28.7%
Top 3 Exports	Oil, manuf, agric
CA Balance % of GDP (2011e)	-1.1%
Fiscal Bal % of GDP (2011e)	-2.5%
Market	
Total Mkt Cap (US\$, bn)	363
MSCI Free Float (US\$, bn)	143
Avg Daily Volume (US\$, mn)	498
Local Index [B'berg Ticker]	Bolsa [MEXBOL]
Other	
Credit Rating (S&P)	BBB
Currency	Peso (MXN)
Citi FX Forecast (2011e)	13.2
Leader / Next Election	F. Calderón (2012)

Source: MSCI, Bloomberg, EIU, CIRA

Figure 196. Map



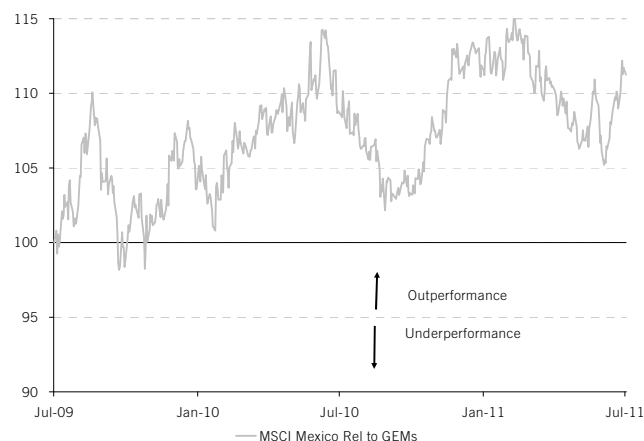
Source: US State Department

Figure 197. Local Index with Moving Averages



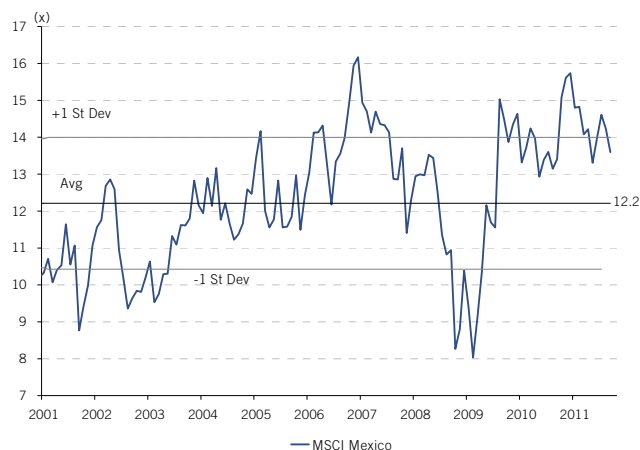
Source: Datastream and Citi Investment Research and Analysis

Figure 198. MSCI Index in USD Relative to GEMs



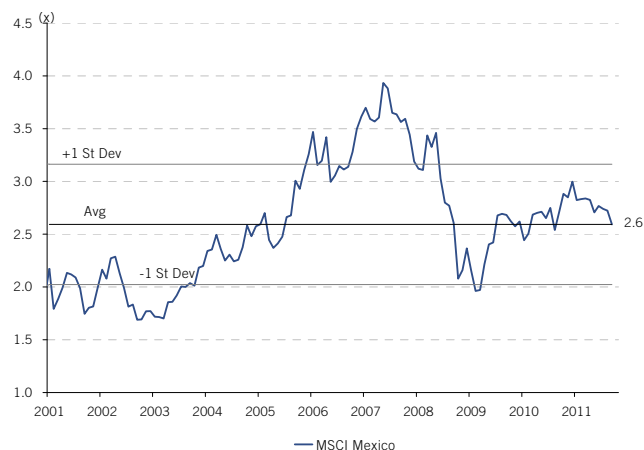
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 199. MSCI Forward P/E



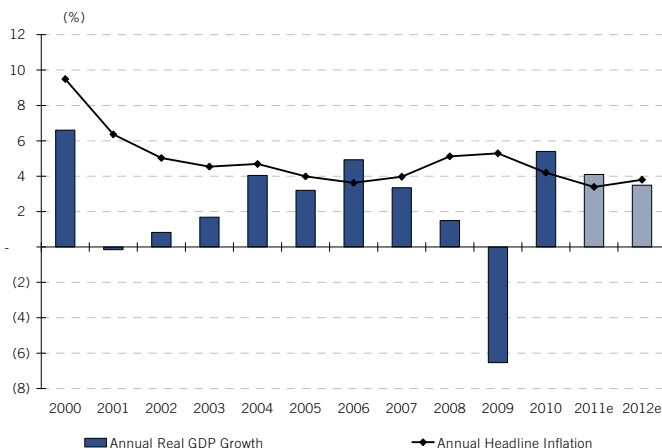
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 200. MSCI Trailing P/B



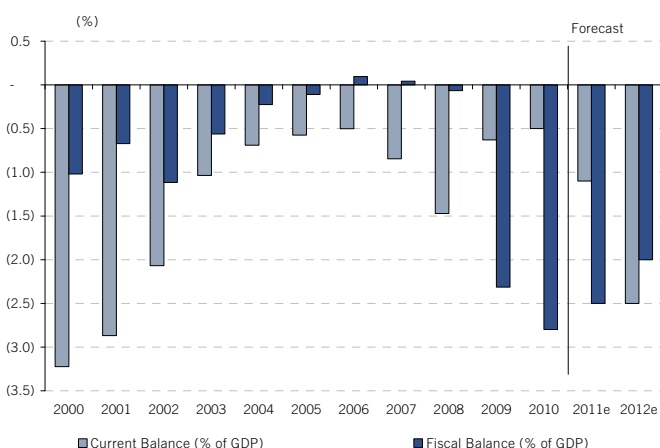
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 201. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 202. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 203. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	AMERICA MOVIL L	Wireless Telecommunication S	45,615	-17.8%	-3.1%	-25.4%	11.7	3.9	5.6	1.1
2	WALMART MEXICO V	Food & Staples Retailing	14,427	-21.9%	1.5%	-18.4%	28.6	4.7	21.2	1.2
3	FEMSA UNIT UBD	Beverages	12,680	-1.7%	-2.3%	13.4%	23.4	2.7	16.0	1.2
4	GRUPO TELEvisa CPO	Media	8,868	-24.7%	2.5%	-26.9%	19.3	3.1	9.9	0.7
5	GRUPO MEXICO B	Metals & Mining	9,067	-28.1%	-6.9%	-46.0%	9.2	2.6	7.1	2.6
6	INDUSTRIAS PENOLES CP	Metals & Mining	5,145	-1.7%	2.1%	3.5%	20.9	6.5	15.7	0.9
7	GRUPO ELEKTRA	Specialty Retail	5,554	48.9%	-8.7%	64.8%	37.8	6.4	29.4	0.2
8	GRUPO FIN BANORTE O	Commercial Banks	4,847	-34.5%	-4.8%	-40.6%	13.1	1.4	n/a	0.4
9	TELEFONOS MEXICO L	Diversified Telecommunication	4,058	-9.2%	-1.9%	-9.2%	13.3	4.1	6.1	5.2
10	GRUPO MODELO C	Beverages	3,628	-4.5%	-1.2%	-8.5%	25.8	3.4	17.9	2.8
11	GRUPO FIN INBURSA O	Commercial Banks	3,374	-34.0%	-2.4%	-25.1%	17.8	2.2	n/a	1.3
12	GRUPO BIMBO A	Food Products	3,141	-17.5%	-1.5%	-12.0%	24.2	2.8	13.7	0.5

Performance in USD. Source: MSCI and FactSet

Morocco - Underweight

Figure 204. Country Breakdown

Weight in GEMS	0.2%
Weight in Region	1.0%
FF Mkt Cap (US\$, mn)	5.5
Sector Weights	
Telecommunication Services	54.4%
Financials	45.6%
Industrials	0.0%
Energy	0.0%
Materials	0.0%
Consumer Discretionary	0.0%
Consumer Staples	0.0%
Health Care	0.0%
Information Technology	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

The smallest equity market within the emerging markets proved to be a relative safe haven in the previous major equity downturn of 2008-9, and we would expect the same to happen again if equities were to remain in the current bear market for much longer. MSCI Morocco fell 9.7% in Q3 compared to -23.1% for MSCI GEMS, the third best-performing EM in the quarter. Not only does the Moroccan market benefit from having a captive domestic investor base, but it is also one of the few countries in the MENA region that has not experienced civil unrest this year, which could potentially be a positive for investor sentiment among those who follow the region. However, we find the market looks expensive on nearly any valuation metric, at well over 4x Book Value and over 13x forward earnings.

Figure 205. Snapshot

Macro	
Population (mn)	32.4
GDP 2011e (US\$, bn)	75.1
GDP/Capita (US\$)	2,318
Real GDP Growth 2010e	3.2%
Inflation (CPI) 2010e	2.0%
Exports (2010)	
GDP (2010)	35.8%
Exports/GDP (2010)	Textile, acid, elec
Top 3 Exports	CA Balance % of GDP (2011e)
CA Balance % of GDP (2011e)	n/a
Fiscal Bal % of GDP (2011e)	n/a
Market	
Total Mkt Cap (US\$, bn)	61.5
MSCI Free Float (US\$, bn)	5.5
Avg Daily Volume (US\$, mn)	n/a
Local Index [B'berg Ticker]	CFG 25 [MCSINDEX]
Other	
Credit Rating (S&P)	BBB-
Currency	Dirham (MAD)
Citi FX Forecast (2010e)	n/a
Leader / Next Election	Mohammed VI ('11)
Capital	Rabat

Source: MSCI, Bloomberg, EIU, CIRA

Figure 206. Map



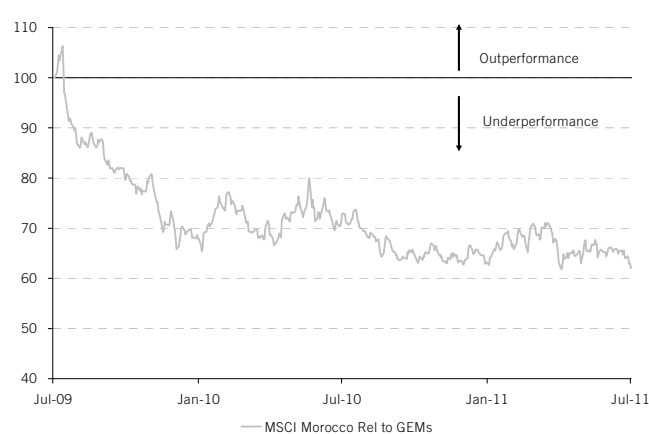
Source: US State Department

Figure 207. Local Index with Moving Averages



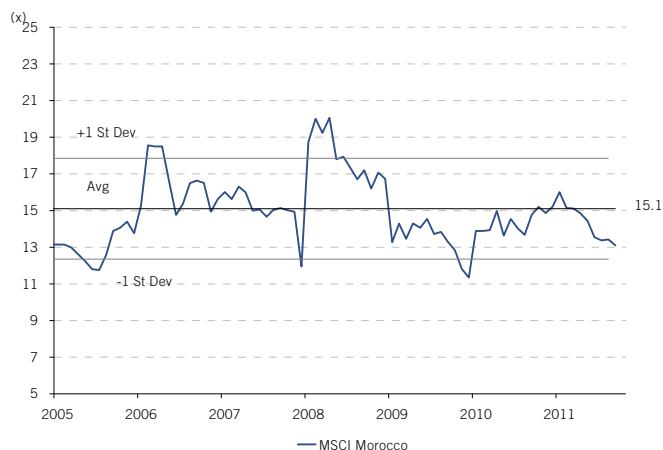
Source: Datastream and Citi Investment Research and Analysis

Figure 208. MSCI Index in USD Relative to GEMS



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 209. MSCI Forward P/E



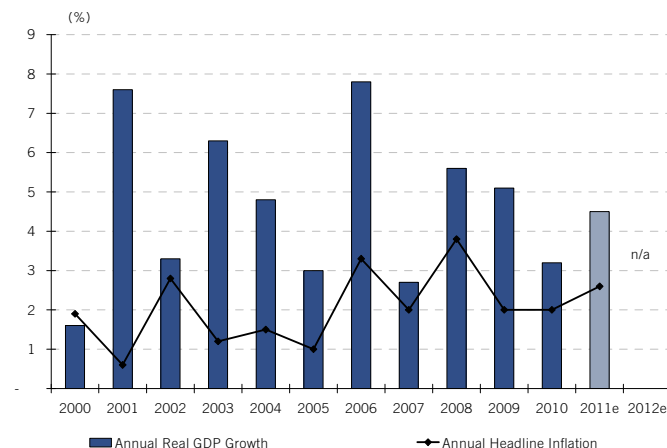
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 210. MSCI Trailing P/B



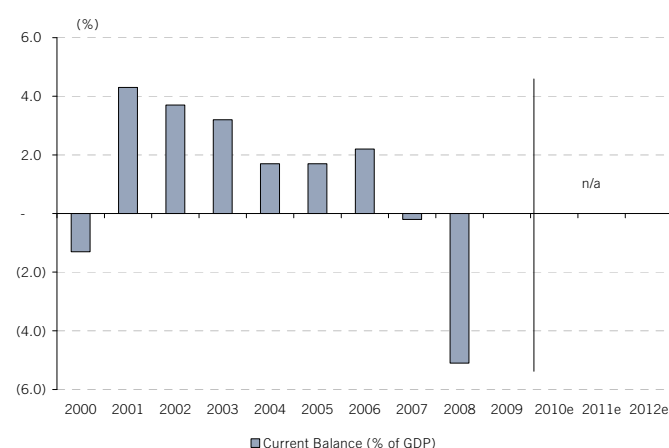
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 211. GDP Growth and Inflation



Source: National Sources, IMF and Citi Investment Research and Analysis

Figure 212. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 213. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/ Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	MAROC TELECOM	Diversified Telecommunication	3,014	-6.8%	-0.2%	-4.8%	13.9	9.2	9.3	7.4
2	ATTIJARIWAFABANK	Commercial Banks	1,308	-1.2%	-4.0%	-11.1%	16.5	3.0	n/a	2.1
3	DOUJA PROM GROUPE ADDO	Real Estate Management & De	1,222	-22.5%	-3.2%	-24.7%	15.1	2.7	n/a	2.5

Performance in USD. Source: MSCI and FactSet

Peru – Underweight

Figure 214. Country Breakdown

Weight in GEMs	0.6%
Weight in Region	2.6%
FF Mkt Cap (US\$, mn)	17.7
Sector Weights	
Materials (2)	64.6%
Financials (1)	35.4%
Energy	0.0%
Industrials	0.0%
Consumer Discretionary	0.0%
Consumer Staples	0.0%
Health Care	0.0%
Information Technology	0.0%
Telecommunication Services	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

We are Neutral in Peru in our Latin American portfolio with a slight Underweight in GEMs. Political risk has diminished greatly; President Ollanta Humala has thus far appointed moderates to his administration and has proposed business-friendly policies. For example, although the market has received few details on the new mining tax law proposal, by all indications it looks to be far less onerous on company profits than originally feared. Still, the financing of Humala's plans to expand social benefits remains a key uncertainty for fiscal policy. On the macro front, due to the less favorable external outlook, our economists have revised down their 2012 GDP growth forecast to 5.5% from 6.5% previously. We also believe the central bank could cut rates by 75bp next year to 3.75%. Finally, although the earnings outlook remains fairly resilient, we find valuations are well above the GEMs average and so are a relative negative for the market.

Figure 215. Snapshot

Macro	
Population (mn)	28.7
GDP 2011e (US\$, bn)	172.7
GDP/Capita (US\$)	6,017
Real GDP Growth (2011e)	6.5%
Inflation (CPI) (2011e)	3.2%
Exports (2010)	35.6
GDP (2010)	153.5
Exports/GDP (2010)	23.2%
Top 3 Exports	Copp, gold, fishmeal
CA Balance % of GDP (2011e)	-3.0%
Fiscal Bal % of GDP (2011e)	1.4%
Market	
Total Mkt Cap (US\$, bn)	84.7
MSCI Free Float (US\$, bn)	18
Avg Daily Volume (US\$, mn)	27
Local Index [B'berg Ticker]	Lima Gen [IGBVL]
Other	
Credit Rating (S&P)	BBB
Currency	Nuevo Sol (PEN)
Citi FX Forecast (2011e)	2.75
Leader / Next Election	O. Humala (2016)
Capital	Lima

Source: MSCI, Bloomberg, EIU, CIRA

Figure 216. Map



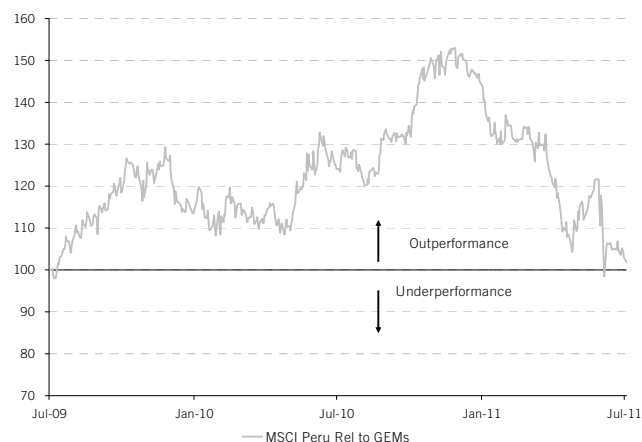
Source: US State Department

Figure 217. Local Index with Moving Averages



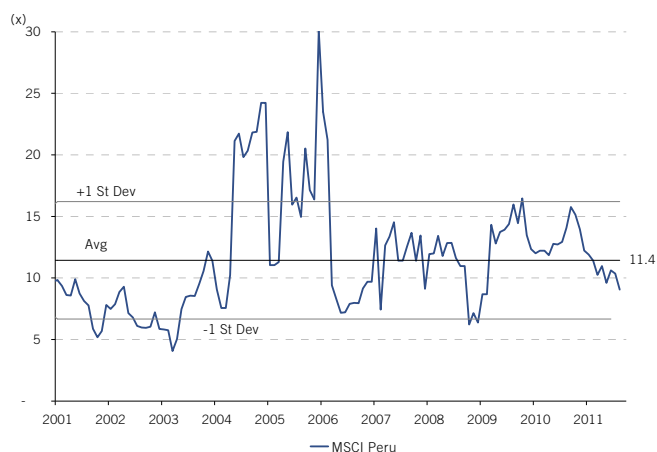
Source: Datastream and Citi Investment Research and Analysis

Figure 218. MSCI Index in USD Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 219. MSCI Forward P/E



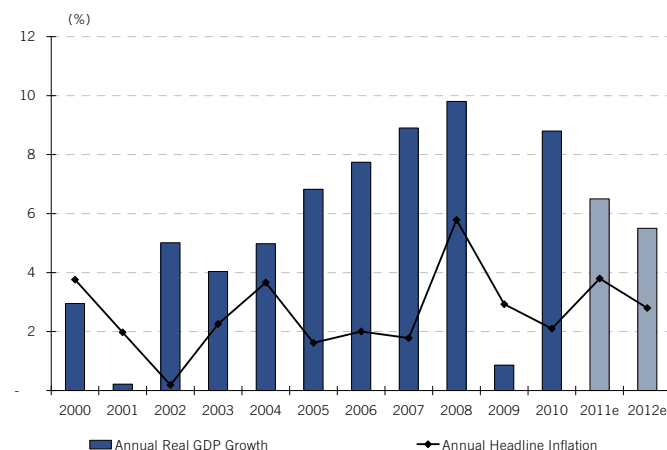
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 220. MSCI Trailing P/B



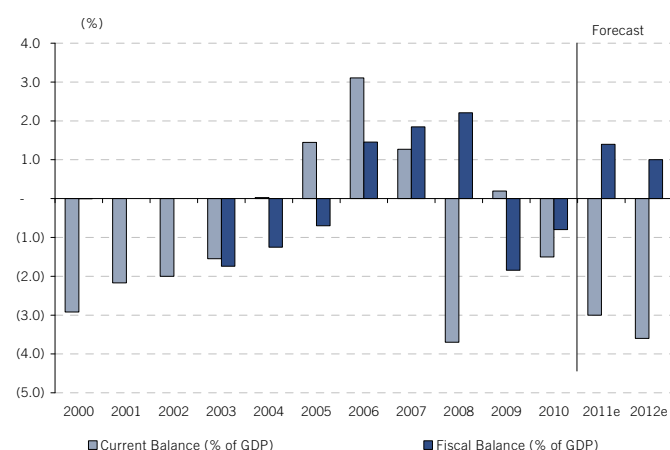
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 221. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 222. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 223. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	BUENAVENTURA MINAS ADR	Metals & Mining	7,183	-0.6%	-2.0%	-24.5%	12.0	3.6	11.1	1.3
2	CREDICORP	Commercial Banks	6,251	7.1%	-3.0%	-24.8%	11.5	2.4	n/a	2.1
3	SOUTHERN COPPER CORP	Metals & Mining	4,248	-24.0%	-4.0%	-50.8%	10.7	5.3	9.2	2.5

Performance in USD. Source: MSCI and FactSet

Philippines – Underweight

Figure 224. Country Breakdown

Weight in GEMs	0.7%
Weight in Region	1.1%
FF Mkt Cap (US\$, mn)	20.4
Sector Weights	
Financials	42.2%
Utilities	18.0%
Telecommunication Services	12.5%
Industrials	23.3%
Consumer Staples	0.0%
Consumer Discretionary	3.9%
Energy	0.0%
Materials	0.0%
Health Care	0.0%
Information Technology	0.0%

Source: MSCI, FactSet and CIRA

MSCI AxJ at 10.7x. MSCI Philippines was, by far, the best performing market in Asia in Q3, only down by 7.6% in US\$. In 2011 as a whole, it has been the third best performer within GEMs after just Indonesia and Colombia. The latest manufacturing production release was tracking favorable onshore demand. The continued reduction of the budget deficit as a possible prelude to another debt rating upgrade for the country drove positive sentiment. Second quarter corporate earnings largely met consensus expectations, and the earnings revisions index improved slightly during the quarter and has been, of late, close to its historical average. However, we find valuations are very expensive, with MSCI Philippines 2012P/E at 12.8x compared to GEMs at 8.6x and EM Asia at 9.1x. We remain Underweight in the Philippines within GEMs.

Figure 225. Snapshot

Macro	
Population (mn)	94.3
GDP 2011e (US\$, bn)	224.4
GDP/Capita (US\$)	2,380
Real GDP Growth (2011e)	3.7%
Inflation (CPI) (2011e)	4.3%
Exports (2010)	50.7
GDP (2010)	199.2
Exports/GDP (2010)	25.5%
Top 3 Exports	Elec, mineral, textile
CA Balance % of GDP (2011e)	3.5%
Fiscal Bal % of GDP (2011e)	-1.6%
Market	
Total Mkt Cap (US\$, bn)	143
MSCI Free Float (US\$, bn)	20
Avg Daily Volume (US\$, mn)	107
Local Index [B'berg Ticker]	PSEi [PCOMP]
Other	
Credit Rating (S&P)	BB
Currency	Peso (PHP)
Citi FX Forecast (2011e)	43.7
Leader / Next Election	B. Aquino III (2016)
Capital	Manila

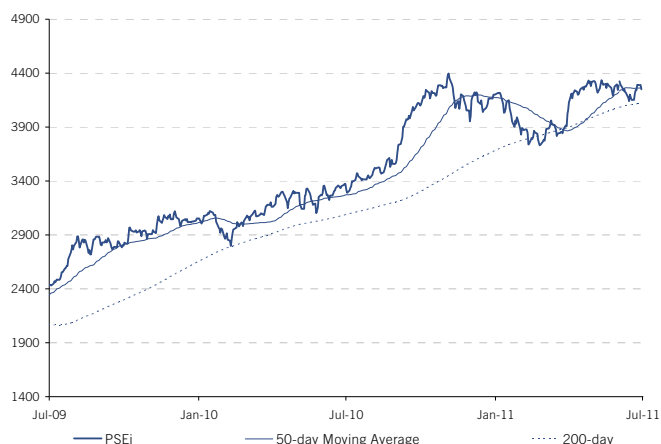
Source: MSCI, Bloomberg, EIU, CIRA

Figure 226. Map



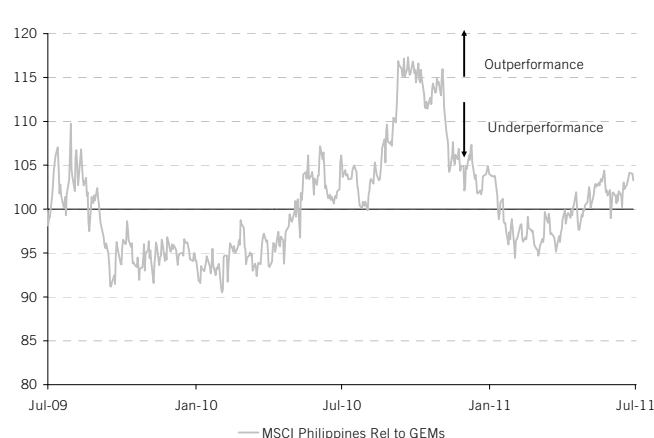
Source: US State Department

Figure 227. Local Index with Moving Averages



Source: Datastream and Citi Investment Research and Analysis

Figure 228. MSCI Index in USD Relative to GEMs



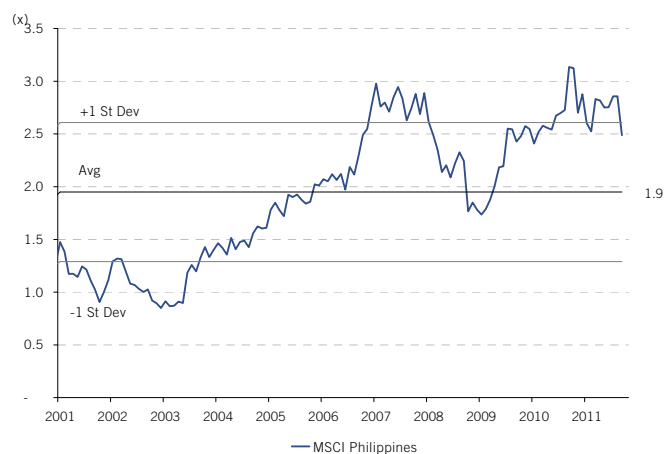
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 229. MSCI Forward P/E



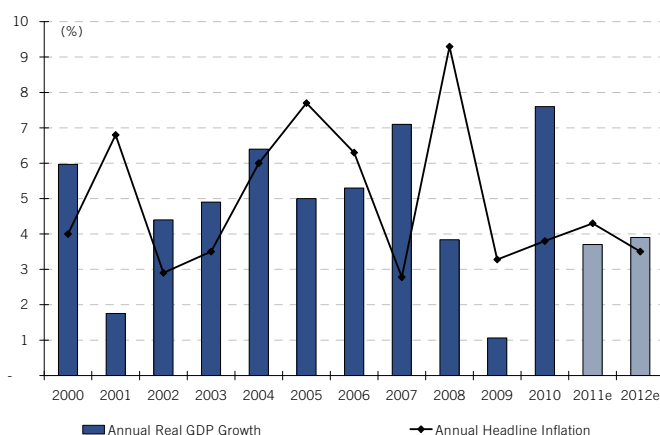
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 230. MSCI Trailing P/B



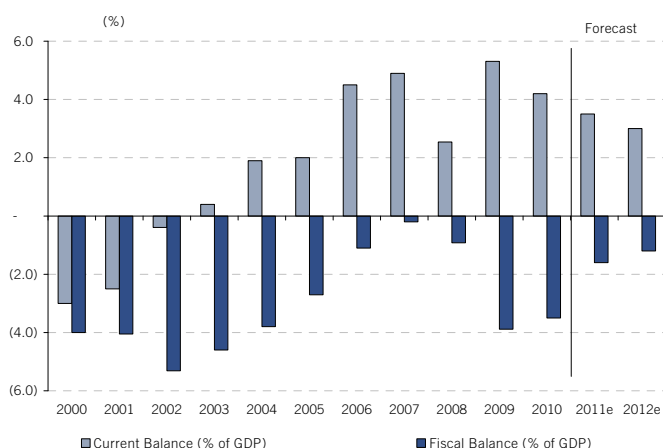
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 231. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 232. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 233. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	SM INVESTMENTS	Industrial Conglomerates	2,192	-3.2%	-8.2%	-11.6%	16.3	2.2	12.0	1.7
2	BANK OF PHIL ISLANDS	Commercial Banks	1,815	-5.5%	-5.1%	-10.1%	16.6	2.4	n/a	3.2
3	AYALA LAND	Real Estate Management & De	1,737	-7.4%	-4.8%	-15.5%	30.1	3.3	22.8	1.0
4	ABOITIZ EQUITY VENTURES	Industrial Conglomerates	1,680	-10.3%	-3.9%	n/a	9.4	3.2	7.9	4.2
5	SM PRIME HOLDINGS	Real Estate Management & De	1,551	2.5%	-6.5%	0.4%	20.3	2.9	14.3	2.2
6	MANILA ELECTRIC CO	Electric Utilities	1,508	-15.4%	-5.1%	-2.4%	24.1	4.2	15.3	2.6
7	METROPOLITAN BANK & TRU	Commercial Banks	1,275	-6.6%	-5.9%	-13.6%	13.6	1.5	n/a	1.5
8	ABOITIZ POWER	Independent Power Producers	1,199	-9.8%	-2.9%	-10.8%	9.2	3.6	8.0	4.6
9	AYALA CORP	Diversified Financial Services	1,156	-9.9%	-6.3%	-17.1%	12.0	1.3	7.9	1.4
10	BANCO DE ORO UNIBANK	Commercial Banks	1,064	-7.5%	-7.6%	-19.3%	13.7	1.6	n/a	2.0
11	ENERGY DEVELOPMENT CORP	Independent Power Producers	969	-15.0%	-1.9%	-5.4%	n/m	4.2	29.6	2.8

Performance in USD. Source: MSCI and FactSet

Poland – Underweight

Figure 234. Country Breakdown

Weight in GEMS	1.5%
Weight in Region	8.3%
FF Mkt Cap (US\$, mn)	47.0
Sector Weights	
Financials	42.8%
Utilities	12.8%
Materials	15.7%
Energy	13.3%
Telecommunication Services	8.3%
Consumer Discretionary	3.4%
Information Technology	1.7%
Consumer Staples	1.9%
Industrials	0.0%
Health Care	0.0%

Source: MSCI, FactSet and CIRA

Exposure to the Euro Area zone is a major drag on growth as Poland's exports are expected to slow down visibly. In addition, rising twin deficits are worrying, as is the public debt ceiling issue, which has been exacerbated by the depreciation of the zloty; while our economist does not expect the legislated public debt ceiling of 55% of GDP to be breached, this will be a close call and such an event could be followed by major fiscal tightening (unlike the policy response to a weak economy in 2009). With prospects now for monetary easing by the ECB, our team also sees potential for rate cuts in Poland. Along with the rest of CE3, the Polish market has had a tough 2011 (-30% YTD) with particularly heavy losses in USD terms given recent zloty weakness. While the market looks relatively cheap vs its own history (and is fairly close to trough valuations), the macro backdrop is challenging, and CIRA analysts have recently put through material earnings downgrades in a number of sectors.

Figure 235. Snapshot

Macro	
Population (mn)	38.2
GDP 2011e (US\$, bn)	492.0
GDP/Capita (US\$)	12,880
Real GDP Growth (2011e)	3.8%
Inflation (CPI) (2011e)	4.2%
Exports (2010)	162.0
GDP (2010)	469.0
Exports/GDP (2010)	34.5%
Top 3 Exports	Mach, manuf, food
CA Balance % of GDP (2011e)	-4.4%
Fiscal Bal % of GDP (2011e)	-5.3%
Market	
Total Mkt Cap (US\$, bn)	140
MSCI Free Float (US\$, bn)	47
Avg Daily Volume (US\$, mn)	363
Local Index [B'berg Ticker]	WIG [WIG]
Other	
Credit Rating (S&P)	A-
Currency	Zloty (PLN)
Citi FX Forecast (2011e)	3.60
Leader / Next Election	B. Komorowski (2015)
Parliamentary Elections	October 2011
Capital	Warsaw

Source: MSCI, Bloomberg, EIU, CIRA

Figure 236. Map



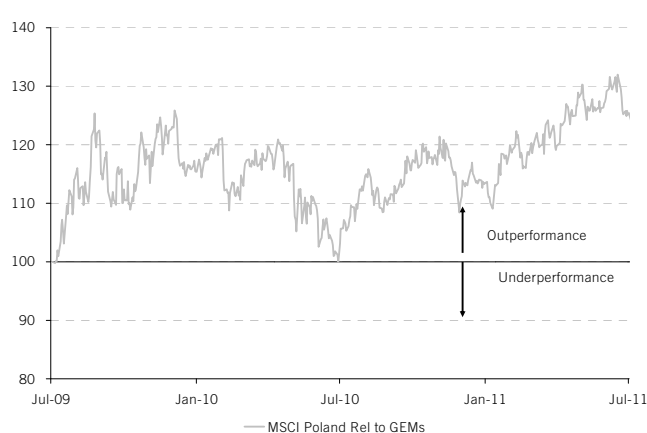
Source: US State Department

Figure 237. Local Index with Moving Averages



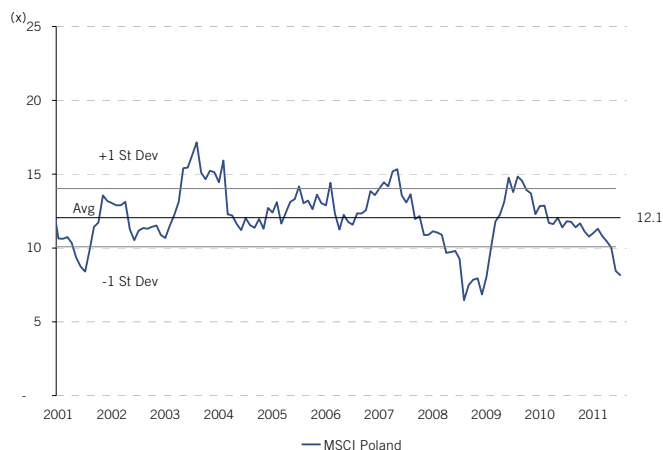
Source: Datastream and Citi Investment Research and Analysis

Figure 238. MSCI Index in USD Relative to GEMS



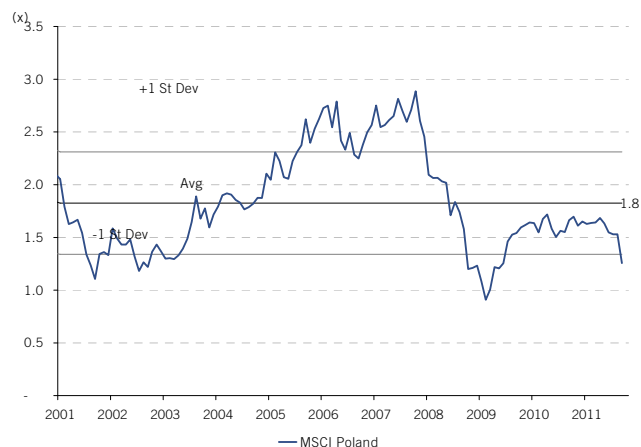
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 239. MSCI Forward P/E



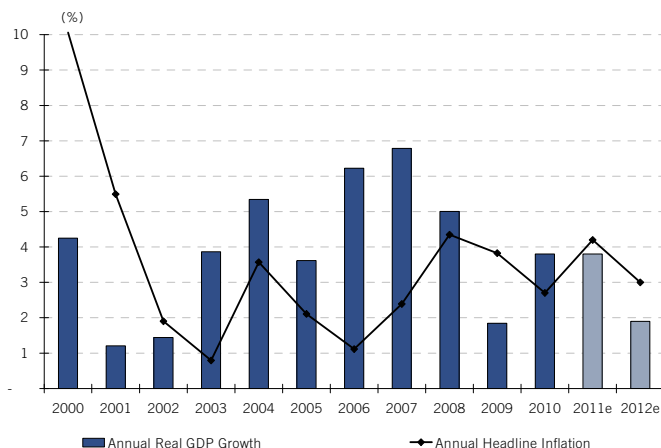
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 240. MSCI Trailing P/B



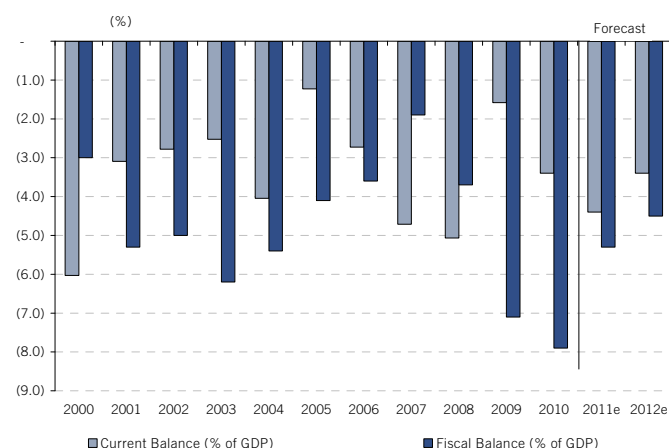
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 241. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 242. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 243. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	PKO BANK POLSKI	Commercial Banks	6,249	-34.7%	-6.2%	-36.1%	11.3	2.0	n/a	6.0
2	POWSZECZNY ZAKLAD UBEZ	Insurance	5,373	-29.9%	-7.6%	-26.5%	9.6	2.2	n/a	8.3
3	KGHM POLSKA MIEDZ	Metals & Mining	5,573	-44.5%	-11.3%	-39.7%	3.9	1.6	3.4	11.4
4	BANK PEKAO	Commercial Banks	4,815	-31.0%	-3.4%	-35.0%	13.2	1.8	n/a	5.1
5	TPSA TELEKOM POLSKA	Diversified Telecommunication	3,884	-12.9%	-2.0%	-6.4%	n/m	1.7	6.5	8.6
6	POLSKA GRUPA ENER	Electric Utilities	3,866	-32.4%	-3.4%	-27.3%	9.7	1.0	5.7	3.3
7	POLSKI KONCERN NAF ORLEI	Oil Gas & Consumable Fuels	3,557	-41.2%	-7.9%	-34.1%	4.1	0.7	2.5	n/a
8	POLISH OIL & GAS	Oil Gas & Consumable Fuels	2,178	-19.7%	-3.0%	-1.2%	9.7	1.0	5.9	3.0
9	TAURON POLSKA ENERGIA	Electric Utilities	1,630	-35.3%	0.3%	-30.1%	8.3	0.6	3.7	2.9
10	JASTRZEBSKA SPOLKA WEGL	Metals & Mining	1,125	n/a	-5.4%	n/a	6.4	1.3	4.1	n/a
11	BRE BK ROZWOJU EKSPORTU	Commercial Banks	1,083	-38.1%	-2.0%	-30.0%	10.8	1.4	n/a	n/a
12	CYFROWY POLSAT SA	Media	949	-24.5%	-5.3%	-23.0%	20.7	2.8	12.5	n/a

Performance in USD. Source: MSCI and FactSet

Russia – Underweight

Figure 244. Country Breakdown

Weight in GEMs	6.4%
Weight in Region	34.7%
FF Mkt Cap (US\$, mn)	196.4
Sector Weights	
Energy	58.2%
Materials	15.3%
Financials	13.6%
Telecommunication Services	7.0%
Utilities	3.8%
Consumer Staples	2.2%
Health Care	0.0%
Industrials	0.0%
Consumer Discretionary	0.0%
Information Technology	0.0%

Source: MSCI, FactSet and CIRA

While Russia is the cheapest EM on most valuation metrics, the market faces rising headwinds from lower oil prices and the impact on sentiment of political events. Although Prime Minister Putin's announcement of his plans to return as President in 2012 were not a surprise, his naming of President Medvedev as likely to return as Prime Minister was less expected. The abrupt departure of respected Finance Minister Kudrin, after an unusually public spat with President Medvedev, casts a cloud of uncertainty over policymaking and threatens higher government spending. Our economists have cut growth sharply to 2.5% in 2012 given the anticipated global slowdown and lower commodity prices. As the oil price has held up relatively well recently, Russian earnings have been relatively resilient. However, we see substantial downside risk to Russian earnings from current levels if oil starts to fall; therefore, we cut Russia to Underweight within GEMs. In the current environment, infrastructure and oil stocks (paradoxically) look better positioned.

Figure 245. Snapshot

Macro	
Population (mn)	143.0
GDP 2011e (US\$, bn)	1,695.0
GDP/Capita (US\$)	11,853
Real GDP Growth (2011e)	4.0%
Inflation (CPI) (2011e)	8.8%
Exports (2010)	398.0
GDP (2010)	1477.0
Exports/GDP (2010)	26.9%
Top 3 Exports	Fuel, metal, chem
CA Balance % of GDP (2011e)	4.8%
Fiscal Bal % of GDP (2011e)	-1.4%
Market	
Total Mkt Cap (US\$, bn)	734
MSCI Free Float (US\$, bn)	196
Avg Daily Volume (US\$, mn)	1,930
Local Index [B'berg Ticker]	MICEX
Other	
Credit Rating (S&P)	BBB
Currency	Ruble (RUB)
Citi FX Forecast (2011e)	28.7
Leader / Next Election	D. Medvedev ('12)
Capital	Moscow

Source: MSCI, Bloomberg, EIU, CIRA

Figure 246. Map



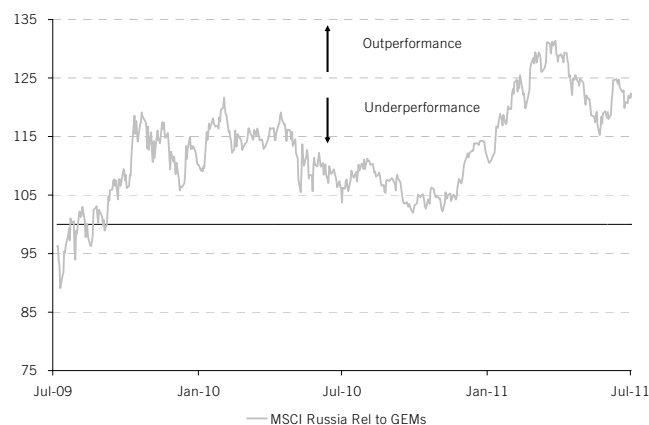
Source: US State Department

Figure 247. Local Index with Moving Averages



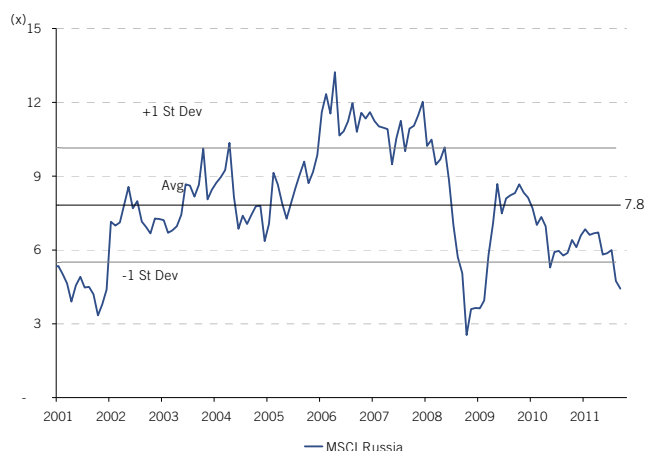
Source: Datastream and Citi Investment Research and Analysis

Figure 248. MSCI Index in USD Relative to GEMs



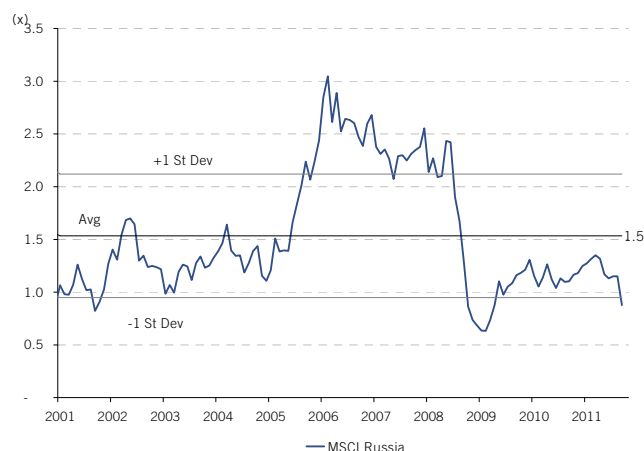
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 249. MSCI Forward P/E



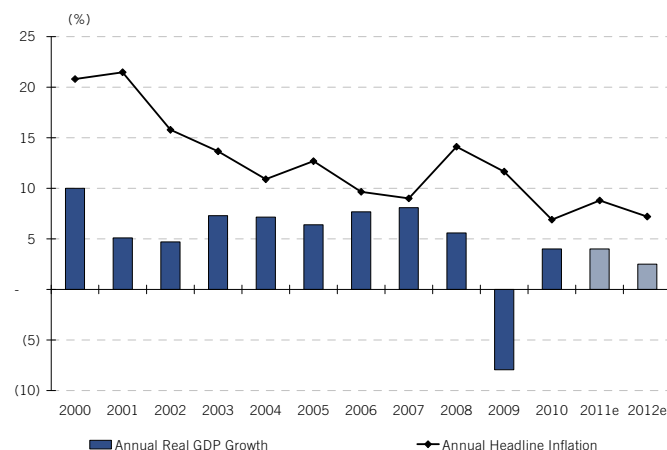
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 250. MSCI Trailing P/B



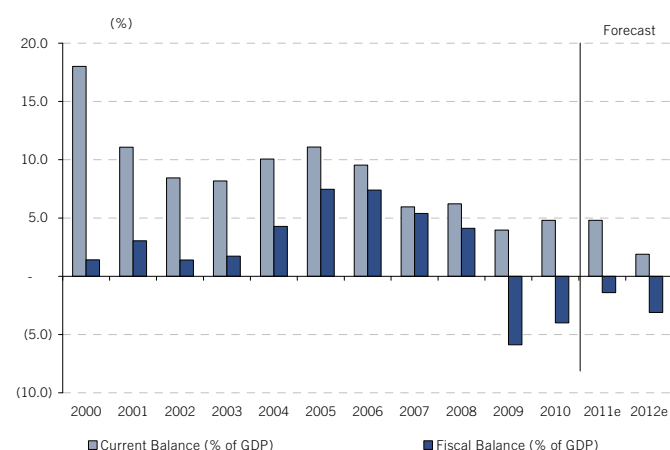
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 251. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 252. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 253. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	GAZPROM (RUB)	Oil Gas & Consumable Fuels	51,517	-33.8%	-8.6%	-30.3%	3.3	0.6	2.7	2.5
2	LUKOIL HOLDING (RUB)	Oil Gas & Consumable Fuels	25,924	-20.2%	-6.8%	-17.0%	3.7	0.7	2.7	3.6
3	SBERBANK RUSSIA COM (RUB)	Commercial Banks	18,867	-39.0%	-12.4%	-43.9%	5.4	1.4	n/a	1.3
4	NORILSK NICKEL MMC (RUB)	Metals & Mining	12,441	-16.8%	-13.0%	-19.4%	7.3	2.3	6.4	2.6
5	NOVATEK GDR (USD)	Oil Gas & Consumable Fuels	10,585	-15.9%	-12.2%	-14.6%	20.5	6.6	18.0	1.5
6	URALKALI COMMON (RUB)	Chemicals	9,633	-22.9%	-8.6%	-12.2%	28.4	8.3	23.1	2.0
7	ROSNEFT (RUB)	Oil Gas & Consumable Fuels	9,383	-30.2%	-9.4%	-25.4%	4.6	0.9	3.1	1.5
8	MOBILE TELESYS ADR (USD)	Wireless Telecommunication S	6,354	-35.3%	-3.2%	-42.9%	9.6	3.7	3.8	8.5
9	SURGUTNEFTGAZ COM (RUB)	Oil Gas & Consumable Fuels	5,807	-17.7%	-2.7%	-25.1%	8.4	0.9	n/a	1.9
10	ROSTELECOM COMMON (RUB)	Diversified Telecommunication	6,107	n/a	-9.2%	n/a	13.7	2.0	5.3	n/a
11	TATNEFT COMMON (RUB)	Oil Gas & Consumable Fuels	5,952	-34.6%	-6.8%	-19.6%	5.1	0.8	4.2	3.7
12	VTB BANK (RUB)	Commercial Banks	5,433	-32.5%	-10.1%	-43.6%	8.3	1.2	n/a	0.9

Performance in USD. Source: MSCI and FactSet

South Africa – Underweight

Figure 254. Country Breakdown

Weight in GEMs	7.7%
Weight in Region	42.3%
FF Mkt Cap (US\$, mn)	239.4
Sector Weights	
Materials	25.6%
Financials	24.8%
Consumer Discretionary	13.2%
Telecommunication Services	13.9%
Energy	9.5%
Consumer Staples	6.2%
Industrials	4.3%
Health Care	2.7%
Information Technology	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

South Africa has been defensive within GEMs in the recent turmoil (-17.7% in Q3), as it usually is. However the economy remains under pressure in light of the challenging global backdrop. Widespread strikes in early Q3 likely forced companies to reduce inventories, resulting in poor GDP performance in the quarter. While sustained strength of the gold price is a positive for South Africa, weakness in other commodities poses some risks. The ZAR has recently come under substantial downward pressure, with our economists expecting modest further weakness as the dollar continues to rally. Earnings downgrades are ongoing; however much depends on how the currency and commodity prices evolve. Within the equity universe, the consumer sector looks relatively attractive, particularly food due to expected higher inflation in the sector. There is still value in diversified miners, we believe, while we prefer platinum to gold miners given recent price performance.

Figure 255. Snapshot

Macro	
Population (mn)	50.0
GDP 2011e (US\$, bn)	385.5
GDP/Capita (US\$)	7,710
Real GDP Growth (2011e)	3.0%
Inflation (CPI) (2011e)	5.0%
Exports (2010)	85.6
GDP (2010)	364.2
Exports/GDP (2010)	23.5%
Top 3 Exports	Metals, coal, auto
CA Balance % of GDP (2011e)	-3.3%
Fiscal Bal % of GDP (2011e)	-5.6%
Market	
Total Mkt Cap (US\$, bn)	412
MSCI Free Float (US\$, bn)	239
Avg Daily Volume (US\$, mn)	1,509
Local Index [B'berg Ticker]	FTSE/JSE 40 [TOP40]
Other	
Credit Rating (S&P)	BBB+
Currency	Rand (ZAR)
Citi FX Forecast (2011e)	8.01
Leader / Next Election	J. Zuma (2014)
Capital	Pretoria

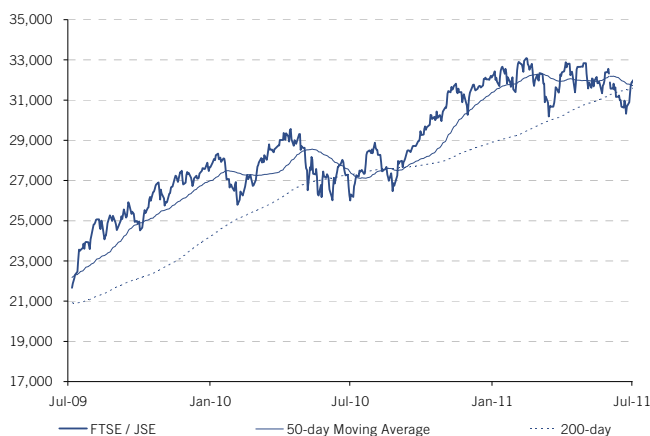
Source: MSCI, Bloomberg, EIU, CIRA

Figure 256. Map



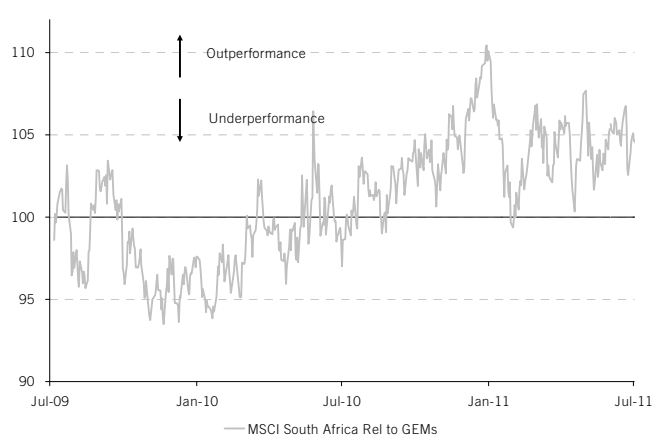
Source: US State Department

Figure 257. Local Index with Moving Averages



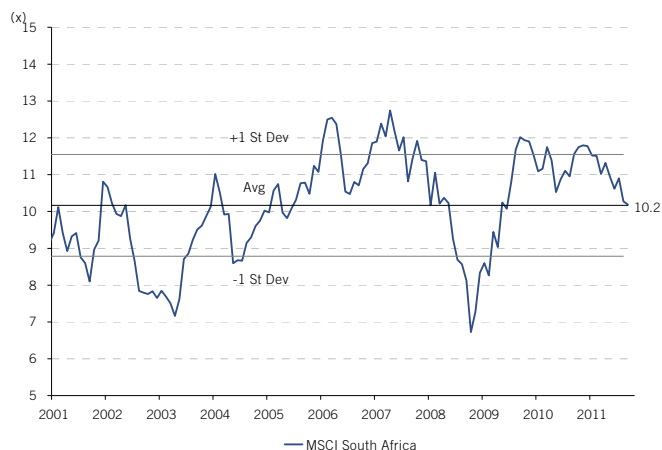
Source: Datastream and Citi Investment Research and Analysis

Figure 258. MSCI Index in USD Relative to GEMs



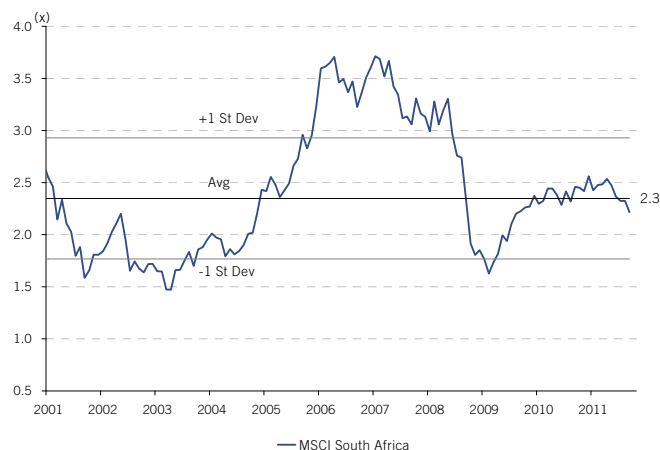
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 259. MSCI Forward P/E



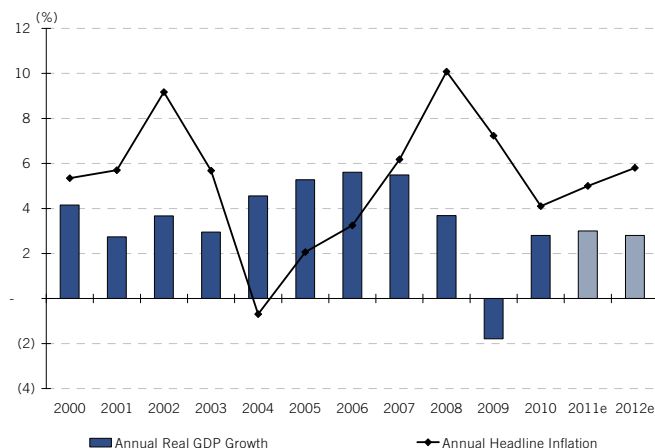
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 260. MSCI Trailing P/B



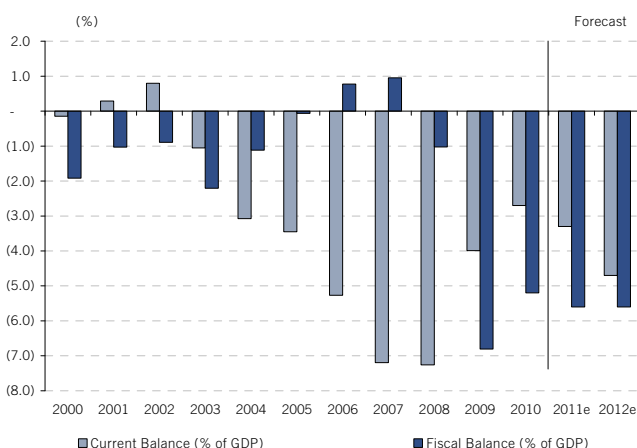
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 261. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 262. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 263. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	MTN GROUP	Wireless Telecommunication S	27,955	-22.4%	-3.6%	-21.8%	17.0	3.2	8.3	4.7
2	SASOL	Oil Gas & Consumable Fuels	22,743	-20.7%	-6.6%	-25.7%	10.6	2.0	7.8	3.9
3	NASPERS N	Media	16,863	-22.5%	-7.2%	-30.9%	33.9	3.5	22.2	0.8
4	ANGLOGOLD ASHANTI	Metals & Mining	16,083	0.1%	-5.0%	-18.9%	29.3	4.1	13.7	0.5
5	STANDARD BANK GROUP	Commercial Banks	13,737	-21.7%	-3.0%	-31.1%	12.3	1.6	n/a	4.2
6	GOLD FIELDS	Metals & Mining	11,195	6.1%	-5.0%	-19.1%	n/m	2.1	14.0	1.4
7	IMPALA PLATINUM HOLDING	Metals & Mining	10,325	-24.0%	-4.4%	-44.6%	15.6	2.2	13.0	3.5
8	FIRSTRAND	Diversified Financial Services	6,873	-16.7%	-4.3%	-20.8%	11.2	2.0	n/a	4.0
9	SANLAM	Insurance	6,006	-17.2%	-5.5%	-24.7%	11.1	1.8	n/a	4.3
10	REMGRO	Diversified Financial Services	5,965	-16.3%	-5.4%	-23.7%	12.8	1.0	11.9	2.8
11	SHOPRITE HOLDINGS	Food & Staples Retailing	5,755	-6.0%	-3.5%	-9.5%	24.0	8.7	17.6	2.2
12	BIDVEST GROUP	Industrial Conglomerates	5,791	-16.1%	-6.4%	-26.4%	13.3	2.8	8.9	3.2

Performance in USD. Source: MSCI and FactSet

Taiwan – Neutral

Figure 264. Country Breakdown

Weight in GEMs	11.5%
Weight in Region	19.3%
FF Mkt Cap (US\$, mn)	354.6
Sector Weights	
Information Technology	53.8%
Financials	15.5%
Materials	14.8%
Telecommunication Services	5.5%
Industrials	3.4%
Consumer Discretionary	3.7%
Consumer Staples	2.3%
Energy	0.9%
Health Care	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

Taiwan's cyclicalty has remained a key drag on market performance, although MSCI Taiwan (-20.3%) did outperform within GEMs in Q3 and moved in line with Asia ex. The level of earnings revisions was marked down sharply during the quarter as electronics exports to, and orders from the rest of Asia slowed; as usual this led to a slowdown in overall economic activity. However, Taiwan is currently the biggest regional underweight for Asian ex fund managers, according to EFPR; valuations should also lend support, with the MSCI Taiwan dividend yield at a very 4.7%, the highest in Asia ex, and close to the highest in GEMs; 90% of Taiwanese stocks have a dividend yield above the sovereign risk free rate. We expect the presidential vote in January 2012 to be a catalyst for a modest pre-election market rally. Banks would likely be the key beneficiary, as historically has been the case. We prefer technology, cyclicals and telecoms in Taiwan.

Figure 265. Snapshot

Macro	
Population (mn)	23.1
GDP 2011e (US\$, bn)	471.0
GDP/Capita (US\$)	20,390
Real GDP Growth (2011e)	4.8%
Inflation (CPI) (2011e)	1.3%
Exports (2010)	274.6
GDP (2010)	430.8
Exports/GDP (2010)	63.7%
Top 3 Exports	Elec, metals, tech
CA Balance % of GDP (2011e)	8.0%
Fiscal Bal % of GDP (2011e)	-2.5%
Market	
Total Mkt Cap (US\$, bn)	673
MSCI Free Float (US\$, bn)	355
Avg Daily Volume (US\$, mn)	3,758
Local Index [B'berg Ticker]	Taiex [TWSE]
Other	
Credit Rating (S&P)	AA-
Currency	Dollar (TWD)
Citi FX Forecast (2011e)	30.8
Leader / Next Election	Ma Ying-jeou (2012)
Capital	Taipei

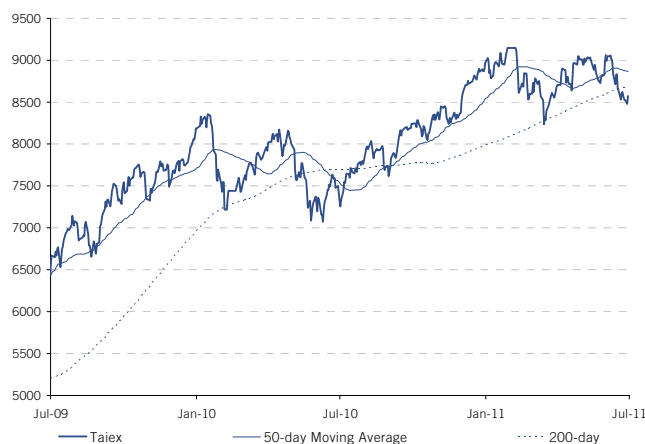
Source: MSCI, Bloomberg, EIU, CIRA

Figure 266. Flag



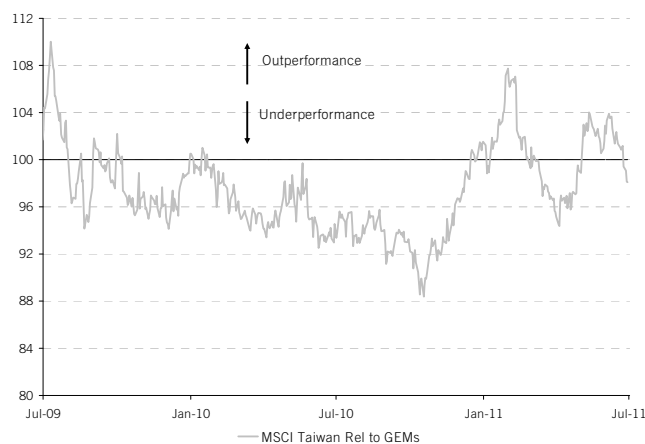
Source: US State Department

Figure 267. Local Index with Moving Averages



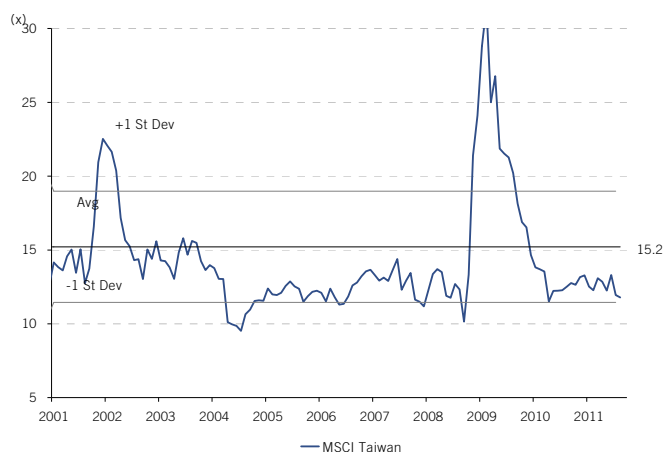
Source: Datastream and Citi Investment Research and Analysis

Figure 268. MSCI Index in USD Relative to GEMs



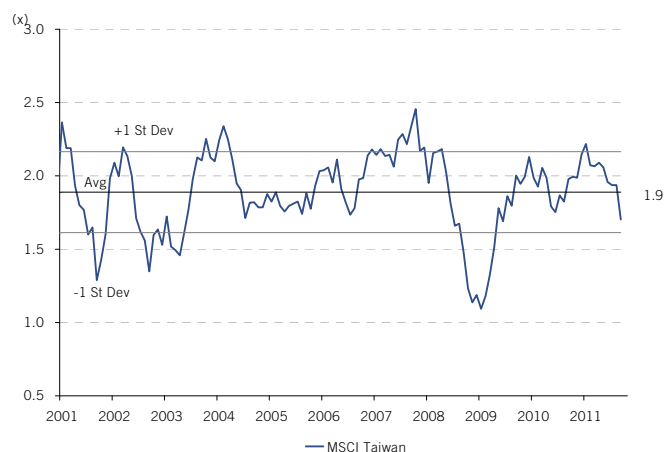
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 269. MSCI Forward P/E



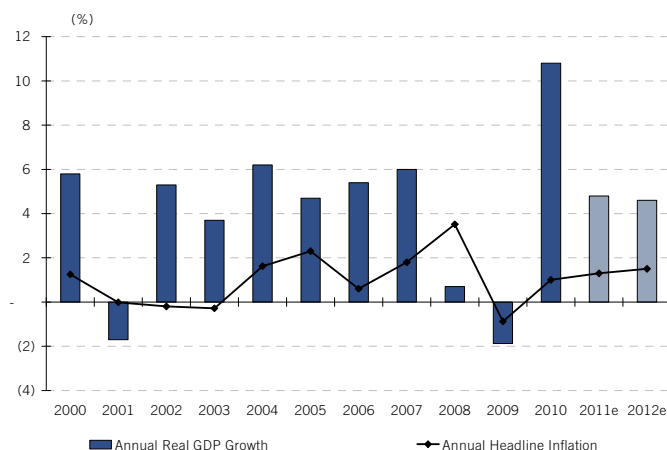
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 270. MSCI Trailing P/B



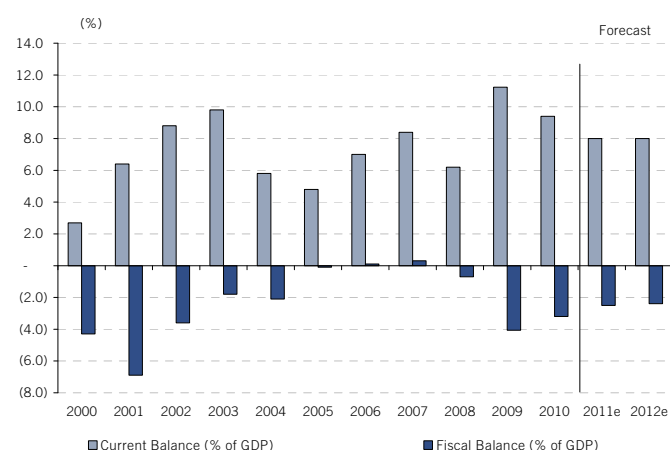
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 271. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 272. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 273. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	TAIWAN SEMICONDUCTOR M	Semiconductors & Semicondu	56,539	-8.6%	-2.0%	-7.5%	11.3	3.2	7.0	4.3
2	HON HAI PRECISION IND CO	Electronic Equipment Instrume	20,512	-27.2%	-1.1%	-38.7%	10.1	1.5	6.3	1.4
3	HTC CORP	Communications Equipment	16,403	-29.8%	-2.6%	-25.5%	10.1	7.1	9.9	5.4
4	CHUNGHWA TELECOM CO	Diversified Telecommunication	12,660	-3.2%	-0.2%	4.6%	16.5	2.3	9.8	5.4
5	MEDIATEK INC	Semiconductors & Semicondu	11,517	2.0%	-3.8%	-25.6%	21.3	3.9	18.3	5.9
6	CHINA STEEL CORP COMMON	Metals & Mining	11,070	-14.5%	-1.0%	-11.2%	14.6	1.7	7.7	6.7
7	FORMOSA PLASTIC CORP	Chemicals	10,666	-25.6%	-6.0%	-24.7%	9.7	2.0	7.8	8.3
8	NAN YA PLASTIC	Chemicals	10,250	-18.4%	-2.9%	-15.3%	12.9	1.9	9.2	7.1
9	CATHAY FINANCIAL HLDS	Insurance	7,776	-23.9%	-6.9%	-38.1%	29.9	1.7	n/a	1.7
10	FORMOSA CHEMICAL FIBERS	Chemicals	7,432	-29.9%	-3.2%	-24.9%	8.5	1.7	6.2	9.4
11	CHINATRUST FINL HLDGS	Commercial Banks	5,750	-26.4%	-4.8%	-16.9%	11.3	1.2	n/a	4.0
12	MEGA FINANCIAL HLDG(CTB)	Commercial Banks	5,532	-18.2%	-6.0%	-12.8%	14.3	1.2	n/a	4.2

Performance in USD. Source: MSCI and FactSet

Thailand – Neutral

Figure 274. Country Breakdown

Weight in GEMs	1.8%
Weight in Region	3.1%
FF Mkt Cap (US\$, mn)	56.4
Sector Weights	
Energy	32.4%
Financials	36.8%
Materials	9.7%
Consumer Staples	10.6%
Consumer Discretionary	1.9%
Telecommunication Services	6.5%
Industrials	0.7%
Utilities	1.4%
Health Care	0.0%
Information Technology	0.0%

Source: MSCI, FactSet and CIRA

After the recent election, MSCI Thailand had a good run in July (+11.6%), outperforming MSCI GEMs (-0.7%). However, this outperformance faded away quickly over the rest of Q3 as the hype of economic and fiscal stimulus, promised in the run-up to the election, turned into questions about implementation and feasibility. Along with these political developments, external weakness has prompted the National Economic and Social Development Board to reduce its GDP projection for this year to 3.5-4% (by 50bps) but to raise its maximum expected inflation to 4% (also by 50bps) due to delayed budget disbursements of the public sector. With Thailand being, on average, the biggest Overweight holding of Asia ex fund managers, according to EPFR, it is vulnerable to further risk reduction by investors. Valuations are slightly above GEMs averages and are not attractive enough to lend solid support, given our analysis; also, fund flows turned sharply negative in the last three weeks of September to the tune of nearly 5% of AUM.

Figure 275. Snapshot

Macro	
Population (mn)	63.9
GDP 2011e (US\$, bn)	358.7
GDP/Capita (US\$)	5,631
Real GDP Growth (2011e)	2.7%
Inflation (CPI) (2011e)	3.8%
Exports (2010)	193.7
GDP (2010)	318.9
Exports/GDP (2010)	60.7%
Top 3 Exports	Mach, circuit, autos
CA Balance % of GDP (2011e)	5.1%
Fiscal Bal % of GDP (2011e)	-2.9%
Market	
Total Mkt Cap (US\$, bn)	226
MSCI Free Float (US\$, bn)	56
Avg Daily Volume (US\$, mn)	924
Local Index [B'berg Ticker]	SET 50 [SET50]
Other	
Credit Rating (S&P)	BBB+
Currency	Baht (THB)
Citi FX Forecast (2011e)	30.7
Leader / Next Election	Y. Shinawatra (2015)
Capital	Bangkok

Source: MSCI, Bloomberg, EIU, CIRA

Figure 276. Map



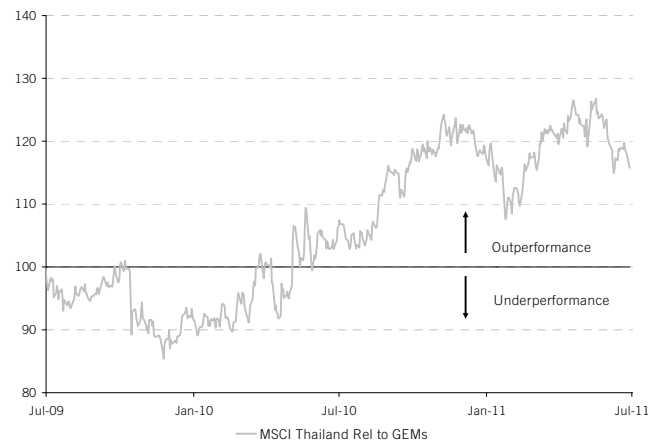
Source: US State Department

Figure 277. Local Index with Moving Averages



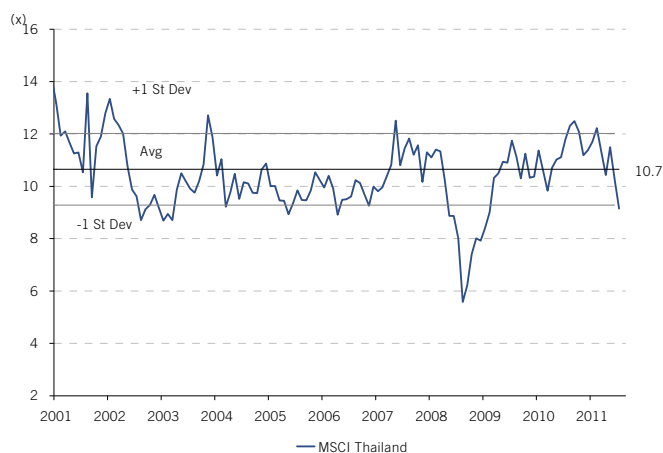
Source: Datastream and Citi Investment Research and Analysis

Figure 278. MSCI Index in USD Relative to GEMs



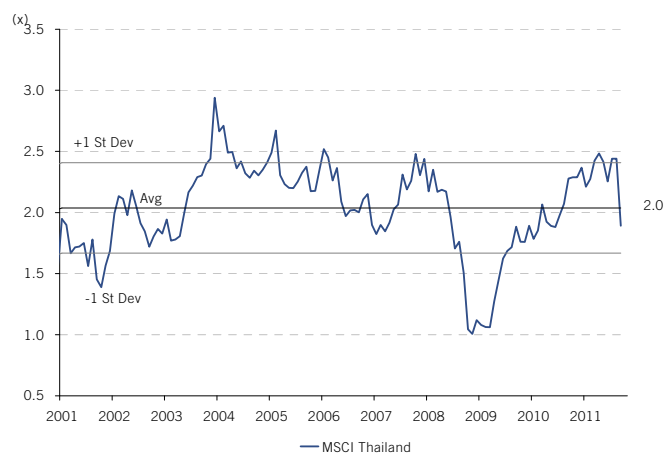
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 279. MSCI Forward P/E



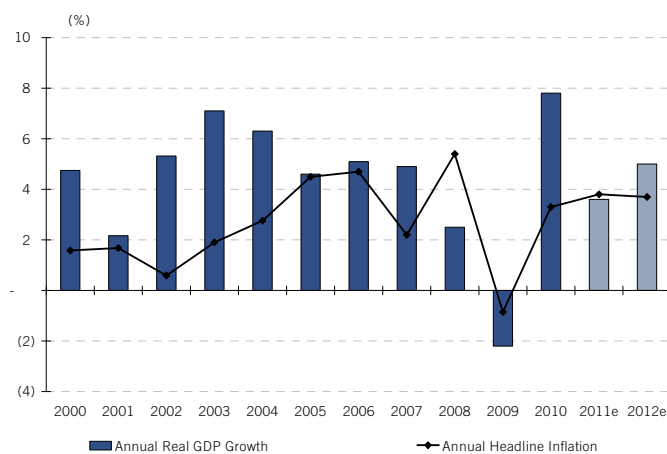
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 280. MSCI Trailing P/B



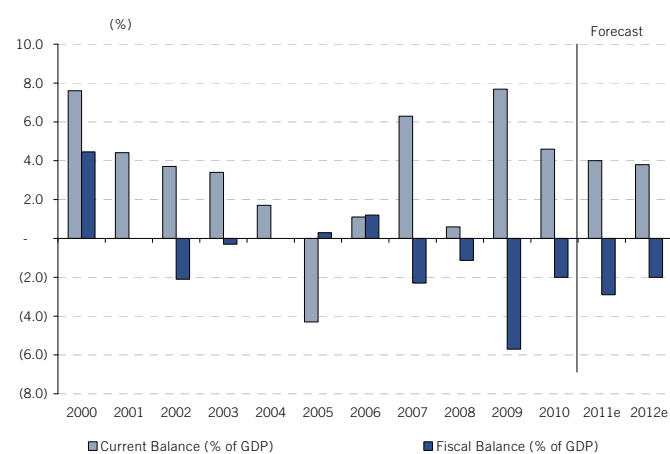
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 281. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 282. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 283. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	PTT	Oil Gas & Consumable Fuels	7,157	-23.3%	-7.1%	-26.8%	6.7	1.4	4.6	4.4
2	PTT EXPLORATION & PROD	Oil Gas & Consumable Fuels	5,213	-19.4%	-3.0%	-21.9%	10.8	2.6	5.8	3.6
3	SIAM COMMERCIAL BANK	Commercial Banks	5,322	-5.6%	-8.9%	-9.5%	10.7	2.1	n/a	2.8
4	KASIKORNBANK FGN	Commercial Banks	4,489	-5.9%	-11.9%	-22.1%	11.7	2.0	n/a	2.1
5	ADVANCED INFO SERVICE	Wireless Telecommunication S	3,672	21.7%	-2.9%	41.8%	16.5	9.1	9.1	6.3
6	BANGKOK BANK FGN	Commercial Banks	3,999	-7.7%	-11.3%	-16.5%	11.0	1.2	n/a	3.7
7	CP ALL PCL	Food & Staples Retailing	3,400	7.2%	-9.0%	7.9%	28.9	12.3	20.8	2.9
8	SIAM CEMENT FGN	Construction Materials	3,011	-24.4%	-11.4%	-25.7%	9.4	2.7	7.0	4.3
9	BANPU	Oil Gas & Consumable Fuels	2,565	-27.7%	-2.1%	-37.2%	4.7	2.0	4.3	3.2
10	CHAROEN POKPHAND FOODS	Food Products	2,588	-10.4%	-4.8%	-0.1%	12.8	3.1	9.7	4.3
11	KASIKORNBANK	Commercial Banks	2,252	-6.0%	-10.8%	-19.4%	11.5	2.0	n/a	2.1
12	BANGKOK BANK	Commercial Banks	2,165	-11.8%	-10.1%	-16.4%	10.5	1.1	n/a	3.9

Performance in USD. Source: MSCI and FactSet

Turkey – Overweight

Figure 284. Country Breakdown

Weight in GEMs	1.5%
Weight in Region	8.2%
FF Mkt Cap (US\$, mn)	46.6
Sector Weights	
Financials	55.4%
Telecommunication Services	12.5%
Consumer Staples	11.9%
Industrials	9.4%
Energy	5.6%
Materials	2.0%
Consumer Discretionary	3.3%
Health Care	0.0%
Information Technology	0.0%
Utilities	0.0%

Source: MSCI, FactSet and CIRA

Turkish economic growth keeps surprising to the upside given very strong domestic demand; however this may come to an end soon as the European slowdown hits the export sector. Our economist has upgraded his 2011 GDP growth forecast to 7.3% from 6.3%, but cut his 2012 projection from 3.9% to 2.5%. Together with the effects of a weaker lira, cooling growth should help moderate external imbalances -- with the record 9.6% of GDP current account deficit forecast to fall modestly to 8.4% in 2012. After recent interest rate cuts (part of Turkey's unorthodox monetary policy of cutting rates while tightening credit via macro-prudential measures) the key policy rate is forecast to remain unchanged to year-end. In an earnings downgrade cycle, Turkey is expected to fare better than many other markets, given earnings forecasts already came under more pressure in early 2011 than elsewhere. Turkey is also likely to be a major beneficiary of any extended declines in commodity prices. However, we find the market does not look as attractive in valuation terms compared to other EMs as often in the past.

Figure 285. Snapshot

Macro	
Population (mn)	72.7
GDP 2011e (US\$, bn)	730.9
GDP/Capita (US\$)	10,054
Real GDP Growth (2011e)	7.3%
Inflation (CPI) (2011e)	6.0%
Exports (2010)	121.0
GDP (2010)	733.6
Exports/GDP (2010)	16.5%
Top 3 Exports	Textile, trans, agri
CA Balance % of GDP (2011e)	-9.6%
Fiscal Bal % of GDP (2011e)	-1.9%
Market	
Total Mkt Cap (US\$, bn)	222
MSCI Free Float (US\$, bn)	47
Avg Daily Volume (US\$, mn)	1,777
Local Index [B'berg Ticker]	ISE 100 [XU100]
Other	
Credit Rating (S&P)	BB
Currency	New Lira (TRY)
Citi FX Forecast (2011e)	1.86
Leader / Next Election	R. Erdogan (Nov '11)
Capital	Ankara

Source: MSCI, Bloomberg, EIU, CIRA

Figure 286. Map



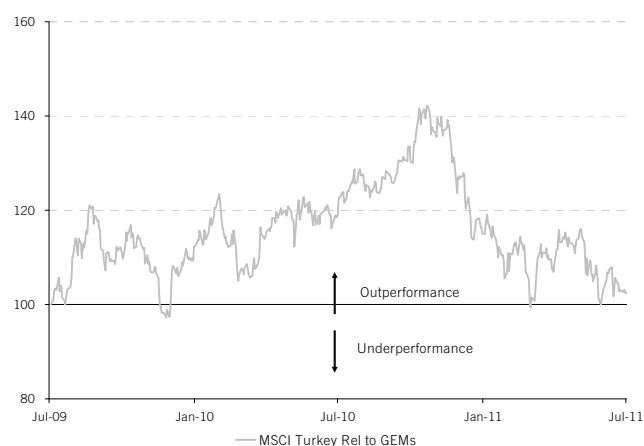
Source: US State Department

Figure 287. Local Index with Moving Averages



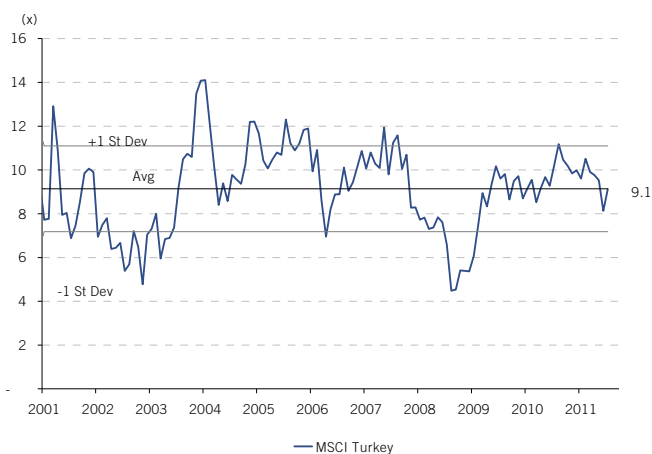
Source: Datastream and Citi Investment Research and Analysis

Figure 288. MSCI Index in USD Relative to GEMs



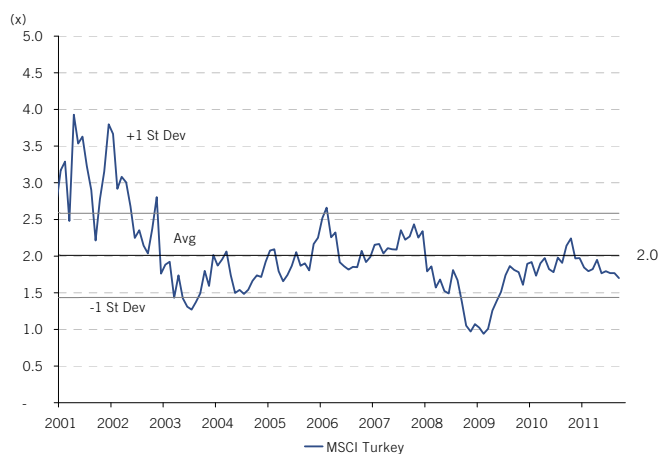
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 289. MSCI Forward P/E



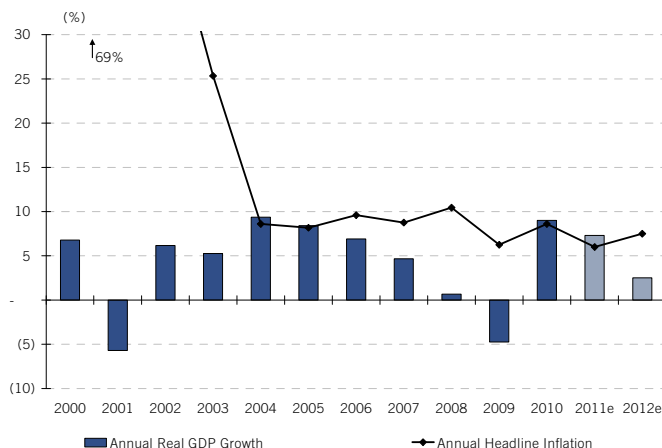
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 290. MSCI Trailing P/B



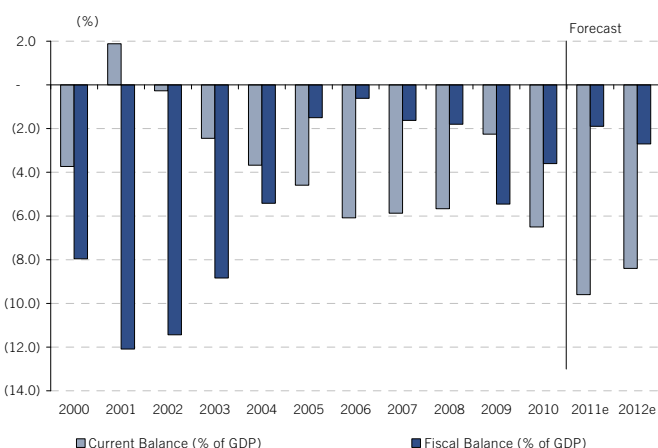
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 291. GDP Growth and Inflation



Source: National Sources and Citi Investment Research and Analysis

Figure 292. External and Fiscal Balances



Source: National Sources and Citi Investment Research and Analysis

Figure 293. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Sector	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	TURKIYE GARANTI BANKASI	Commercial Banks	8,177	-14.1%	-8.6%	-30.0%	9.3	1.8	n/a	3.0
2	AKBANK	Commercial Banks	4,737	-14.5%	-9.9%	-36.2%	11.3	1.7	n/a	1.9
2	TURKIYE IS BANKASI C	Commercial Banks	4,074	-15.6%	-7.4%	-33.0%	8.1	1.3	n/a	3.2
3	TURKCELL ILETISIM HIZMET	Wireless Telecommunication S	3,545	-14.3%	-2.3%	-34.4%	10.6	1.6	6.1	n/a
4	TUPRAS TURKIYE PETROL	Oil Gas & Consumable Fuels	2,592	-15.5%	-6.4%	-22.8%	9.9	2.6	7.9	7.7
5	ANADOLU EFES BIRACILIK	Beverages	2,341	-14.5%	-3.3%	-26.4%	20.0	3.3	12.1	2.2
6	BIM BIRLESIK MAGAZALAR	Food & Staples Retailing	2,312	-14.7%	-2.1%	-20.5%	28.3	17.0	22.6	2.3
7	TURK TELEKOMUNIKASYON	Diversified Telecommunication	2,253	-18.8%	-2.6%	-1.0%	11.6	5.6	7.9	8.0
8	KOC HOLDING	Industrial Conglomerates	2,247	-13.4%	-5.8%	-28.3%	8.5	1.3	5.7	3.3
9	TURKIYE HALK BANKASI	Commercial Banks	2,252	-3.7%	-11.2%	-24.9%	9.3	2.2	n/a	2.4
10	YAPI VE KREDI BANKASI	Commercial Banks	1,931	-11.6%	-8.0%	-35.3%	8.2	1.5	n/a	n/a
12	SABANCI HLDG (HACI OMER)	Diversified Financial Services	1,783	-16.8%	-3.6%	-28.0%	7.2	1.0	5.7	2.3

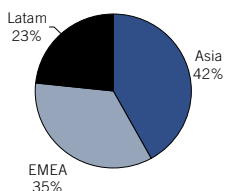
Performance in USD. Source: MSCI and FactSet

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Sectors

Energy – Underweight

Figure 294. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 295. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-26.3%	-7.0%	-30.0%	-18.6%	-6.1%	-25.1%	6.0	1.06	16.5%	3.1%
AC World	-21.9%	-3.4%	-19.8%	-18.9%	-2.8%	-18.0%	7.8	1.41	15.0%	3.0%
Asia	-22.2%	-8.0%	-27.0%	-19.9%	-7.7%	-25.1%	7.9	1.72	19.1%	3.2%
Latam	-30.9%	-4.3%	-39.6%	-18.5%	-3.1%	-32.2%	8.0	0.97	12.5%	3.2%
EMEA	-27.7%	-7.7%	-25.5%	-16.9%	-6.2%	-18.4%	3.8	0.76	17.2%	2.9%

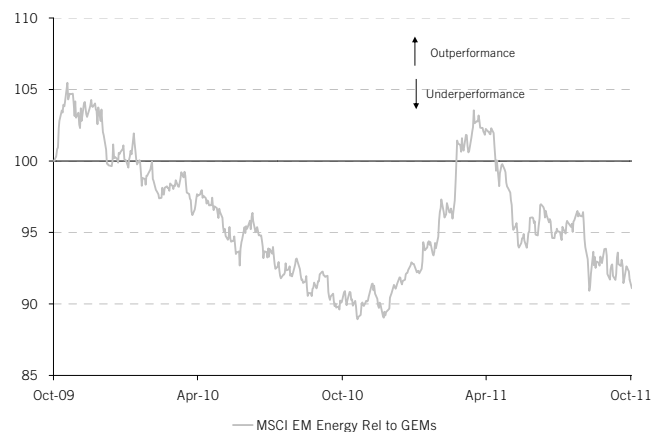
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 296. MSCI Sector Index in USD



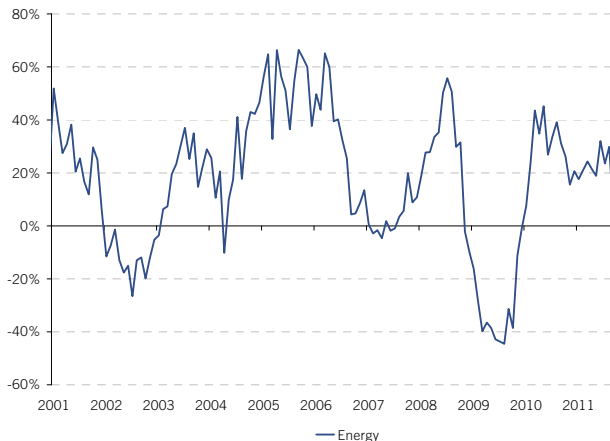
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 297. MSCI Index Relative to GEMs



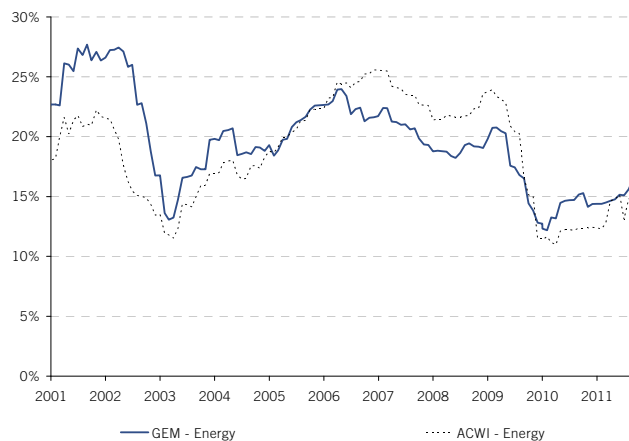
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 298. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



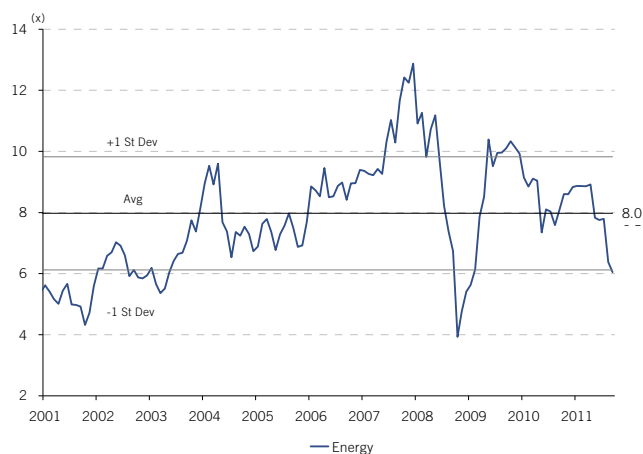
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 299. Sector ROE



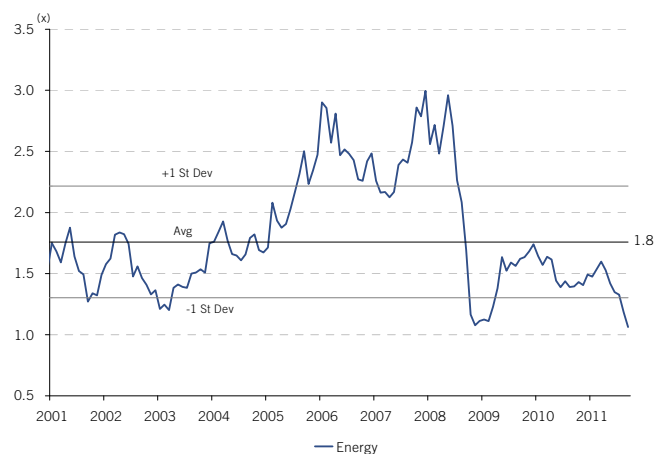
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 300. MSCI GEMs Sector Forward 12m P/E (Consensus)



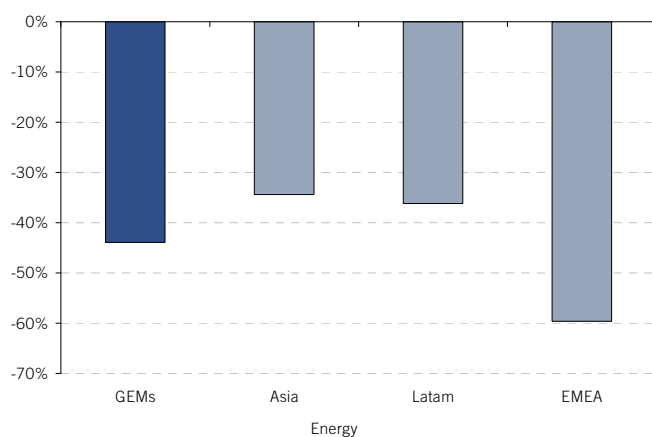
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 301. Sector Trailing P/B



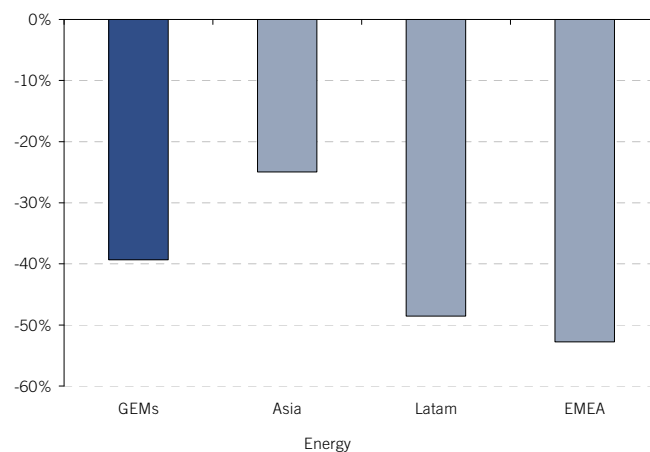
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 302. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 303. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

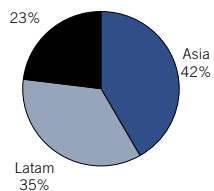
Figure 304. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	GAZPROM (RUB)	Russia	51,517	(33.8)	-8.6%	-30.3%	3.3	0.6	2.7	2.5
2	PETROBRAS PN	Brazil	43,232	(32.2)	-8.6%	-30.3%	6.1	0.8	4.4	3.6
3	PETROBRAS ON	Brazil	33,519	(33.0)	-4.0%	-39.9%	6.6	0.8	4.8	3.3
4	CNOOC	China	29,838	(28.4)	-4.7%	-41.7%	7.0	1.9	5.3	3.8
5	PETROCHINA CO H	China	26,208	(15.1)	-12.8%	-38.6%	10.3	1.5	5.6	4.4
6	LUKOIL HOLDING(RUB)	Russia	25,924	(20.2)	-6.5%	-11.2%	3.7	0.7	2.7	3.6
7	SASOL	South Africa	22,743	(20.7)	-6.8%	-17.0%	10.6	2.0	7.8	3.9
8	RELIANCE INDUSTRIES	India	21,613	(17.9)	-6.6%	-25.7%	12.6	1.7	7.6	1.0
9	CHINA PETRO & CHEM H	China	16,555	(2.0)	-5.4%	-34.0%	7.1	1.2	3.9	3.7
10	CHINA SHENHUA ENERGY H	China	13,555	(16.3)	-1.8%	1.2%	12.2	2.5	9.1	2.9

Performance in USD. Source: MSCI and FactSet

Materials – Neutral

Figure 305. Sector Breakdown



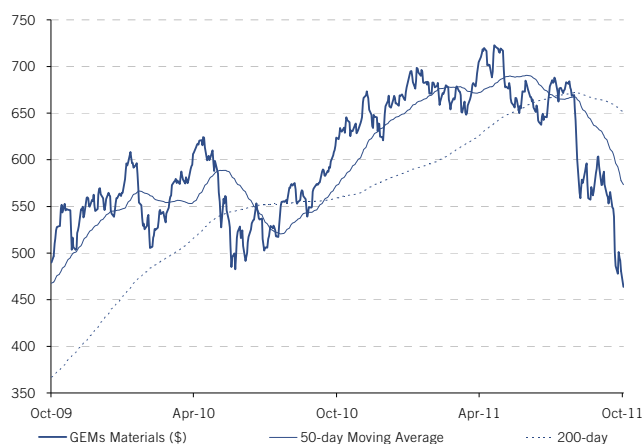
Source: MSCI, FactSet and CIRA

Figure 306. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward		Trailing	Div
	Last Q	MTD	YTD	Last Q	MTD	YTD	P/E	P/B	ROE	Yield
GEMs	-28.2%	-6.6%	-34.1%	-19.5%	-5.4%	-27.5%	7.5	1.56	17.0%	3.5%
AC World	-26.3%	-4.7%	-29.8%	-21.9%	-3.6%	-27.1%	8.2	1.54	15.1%	2.7%
Asia	-31.4%	-7.5%	-31.9%	-26.9%	-6.8%	-28.7%	7.6	1.39	14.8%	3.6%
Latam	-28.1%	-5.3%	-37.6%	-16.3%	-4.2%	-30.2%	6.4	1.45	19.3%	3.8%
EMEA	-22.3%	-7.0%	-31.6%	-9.0%	-4.9%	-19.1%	8.0	2.36	18.1%	2.9%

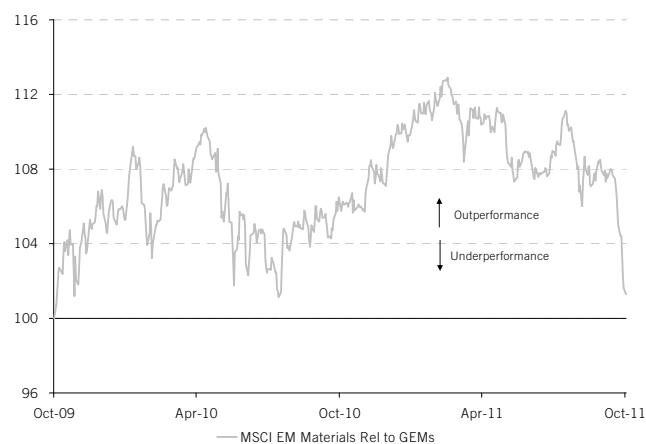
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 307. MSCI Sector Index in USD



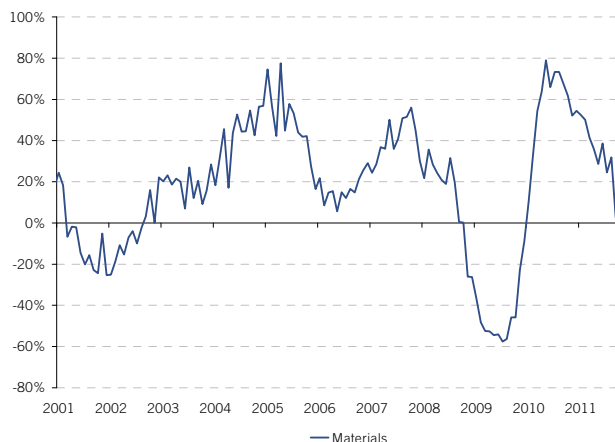
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 308. MSCI Index Relative to GEMs



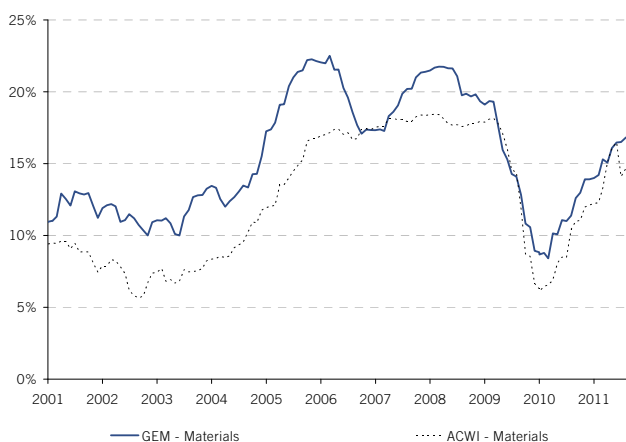
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 309. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 310. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 311. MSCI GEMs Sector Forward 12m P/E (Consensus)



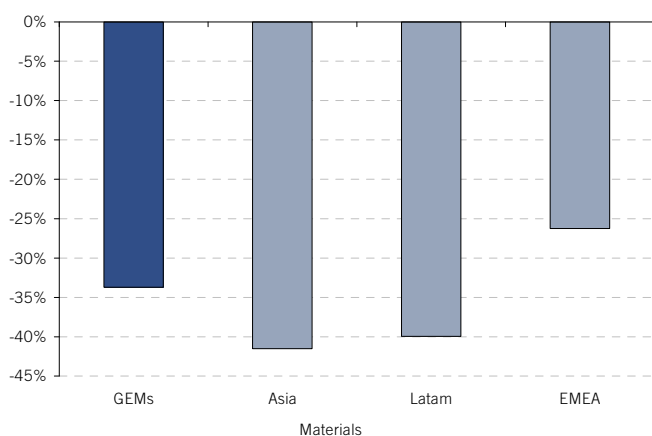
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 312. Sector Trailing P/B



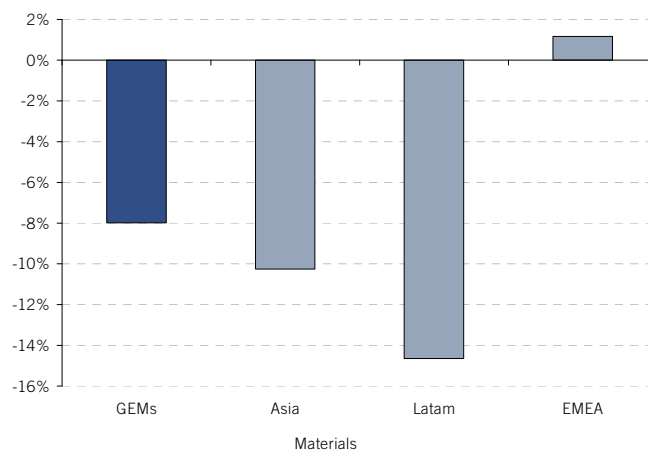
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 313. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 314. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

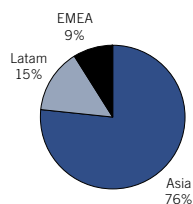
Figure 315. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	VALE PNA	Brazil	42,335	(26.0)	-4.6%	-31.0%	4.9	1.6	4.2	4.7
2	VALE ON	Brazil	29,931	(27.5)	-4.9%	-34.5%	5.3	1.7	4.6	4.4
3	POSCO	Korea	20,593	(27.5)	-6.3%	-31.2%	7.3	0.8	4.2	2.7
4	ANGLOGOLD ASHANTI	South Africa	16,083	0.1	-5.0%	-18.9%	29.3	4.1	13.7	0.5
5	LG CHEM	Korea	12,640	(40.4)	-9.6%	-28.5%	10.3	2.9	8.0	1.2
6	CHINA STEEL CORP COMMON	Taiwan	11,070	(14.5)	-1.0%	-11.2%	14.6	1.7	7.7	6.7
7	NORILSK NICKEL MMC(RUB)	Russia	12,441	(16.8)	-13.0%	-19.4%	7.3	2.3	6.4	2.6
8	GOLD FIELDS	South Africa	11,195	6.1	-5.0%	-19.1%	n/m	2.1	14.0	1.4
9	FORMOSA PLASTIC CORP	Taiwan	10,666	(25.6)	-6.0%	-24.7%	9.7	2.0	7.8	8.3
10	NAN YA PLASTIC	Taiwan	10,250	(18.4)	-2.9%	-15.3%	12.9	1.9	9.2	7.1

Performance in USD. Source: MSCI and FactSet

Industrials – Neutral

Figure 316. Sector Breakdown



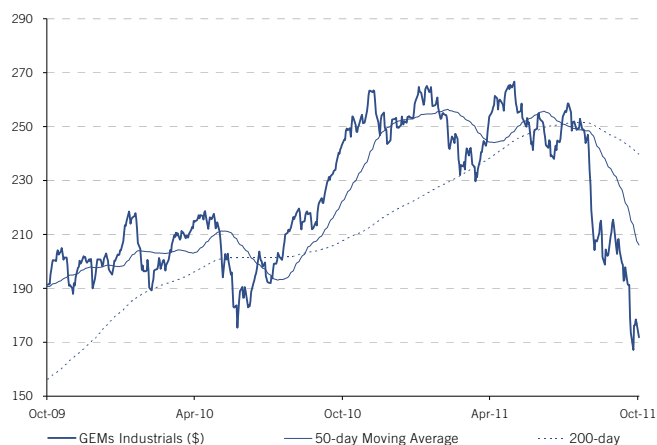
Source: MSCI, FactSet and CIRA

Figure 317. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-29.6%	-6.7%	-36.3%	-23.6%	-5.7%	-32.0%	9.3	1.39	13.3%	2.5%
AC World	-23.0%	-3.4%	-22.3%	-21.3%	-3.1%	-22.2%	10.1	1.64	14.0%	2.9%
Asia	-31.0%	-6.9%	-37.8%	-26.5%	-6.2%	-35.0%	8.9	1.26	13.0%	2.3%
Latam	-27.3%	-5.9%	-28.9%	-15.3%	-4.7%	-19.4%	14.5	2.25	15.2%	2.6%
EMEA	-19.3%	-5.6%	-34.4%	-8.1%	-3.6%	-21.5%	9.1	1.82	14.1%	3.5%

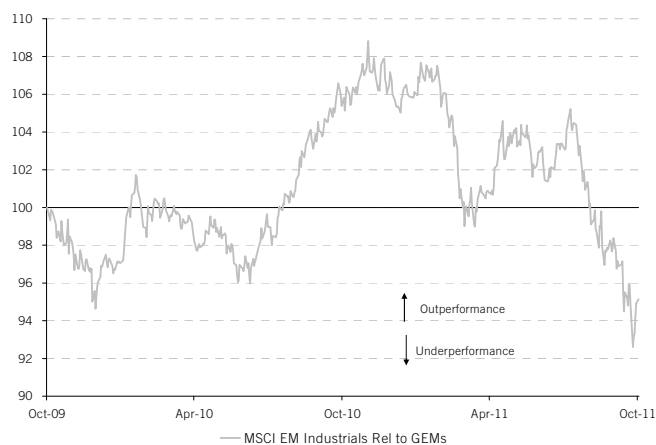
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 318. MSCI Sector Index in USD



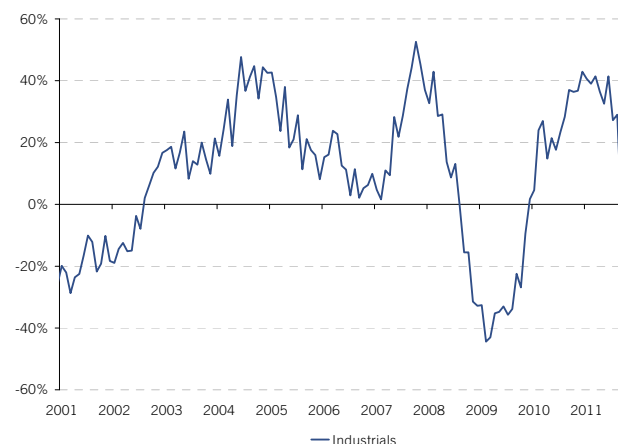
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 319. MSCI Index Relative to GEMs



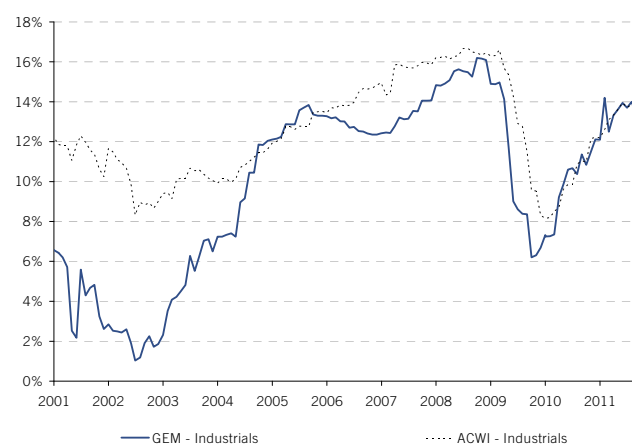
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 320. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



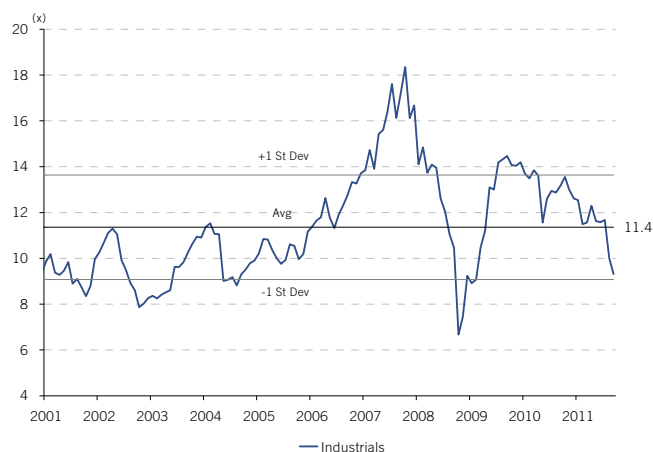
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 321. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 322. MSCI GEMs Sector Forward 12m P/E (Consensus)



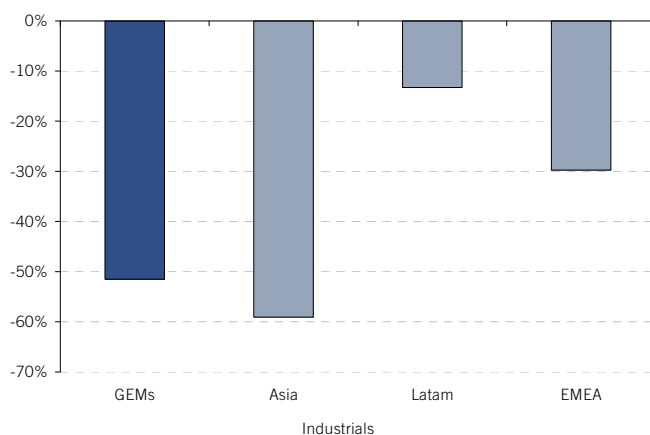
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 323. Sector Trailing P/B



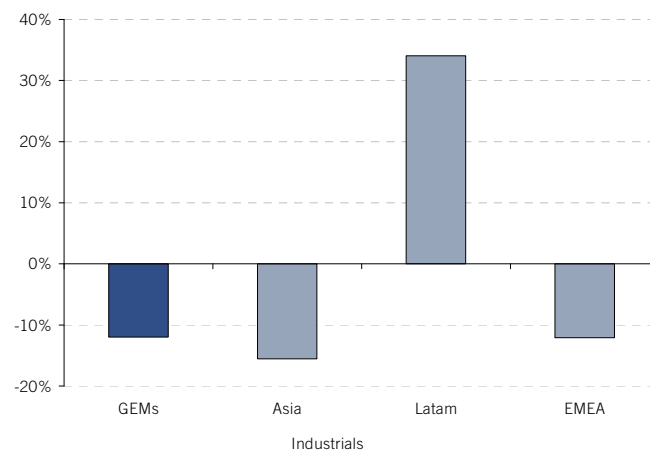
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 324. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 325. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

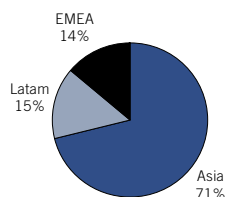
Figure 326. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	HYUNDAI HEAVY INDUSTRIES	Korea	9,971	(42.6)	-6.3%	-42.7%	4.2	1.1	3.4	2.5
2	SIME DARBY	Malaysia	7,149	(13.5)	-2.3%	-9.5%	13.8	2.1	10.8	1.3
3	SAMSUNG C&T CORP	Korea	7,426	(22.6)	-7.7%	-21.1%	28.1	1.2	16.0	0.7
4	CCR	Brazil	5,820	(11.3)	-3.3%	-9.8%	30.1	6.5	21.2	3.7
5	LARSEN & TOUBRO	India	5,746	(32.1)	-2.3%	-38.8%	18.3	3.3	14.0	1.1
6	SAMSUNG ENGINEERING CO	Korea	5,934	(17.2)	-5.8%	10.1%	21.2	8.7	19.9	1.1
7	BIDVEST GROUP	South Africa	5,791	(16.1)	-6.4%	-26.4%	13.3	2.8	8.9	3.2
8	EMPRESAS COPEC	Chile	7,953	(10.0)	-8.8%	-43.8%	26.8	2.4	18.1	1.1
9	LG CORP (NEW)	Korea	4,866	(31.8)	-5.8%	-37.2%	7.2	1.0	6.0	1.7

Performance in USD. Source: MSCI and FactSet

Consumer Discretionary – Overweight

Figure 327. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 328. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-19.6%	-5.4%	-16.9%	-11.5%	-4.3%	-10.2%	10.1	2.22	17.5%	1.6%
AC World	-17.2%	-2.5%	-14.4%	-15.7%	-2.2%	-14.3%	9.2	1.79	12.7%	2.1%
Asia	-18.3%	-5.6%	-9.9%	-12.6%	-4.7%	-6.2%	9.3	2.14	18.5%	1.6%
Latam	-25.2%	-3.7%	-32.1%	-11.7%	-2.6%	-23.2%	11.1	2.19	14.5%	1.3%
EMEA	-19.9%	-6.4%	-27.3%	-5.1%	-3.7%	-9.5%	12.4	2.76	14.8%	2.1%

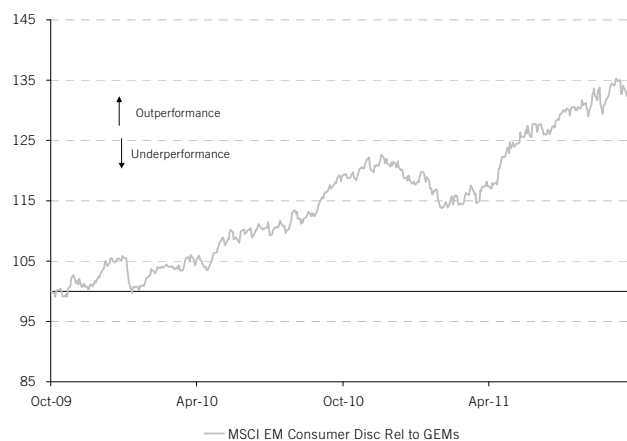
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 329. MSCI Sector Index in USD



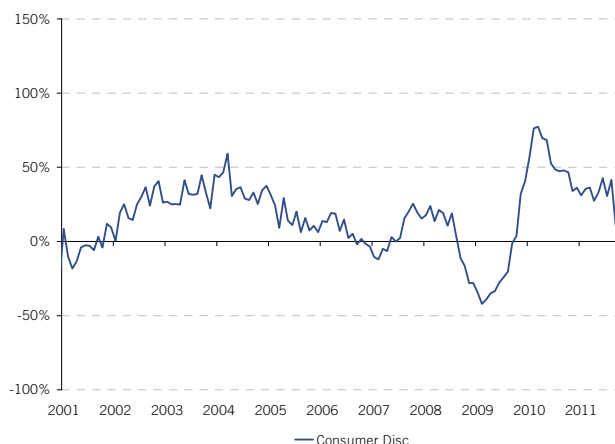
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 330. MSCI Index Relative to GEMs



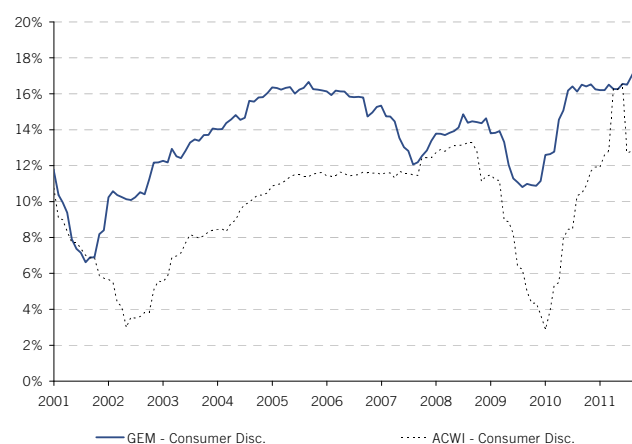
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 331. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



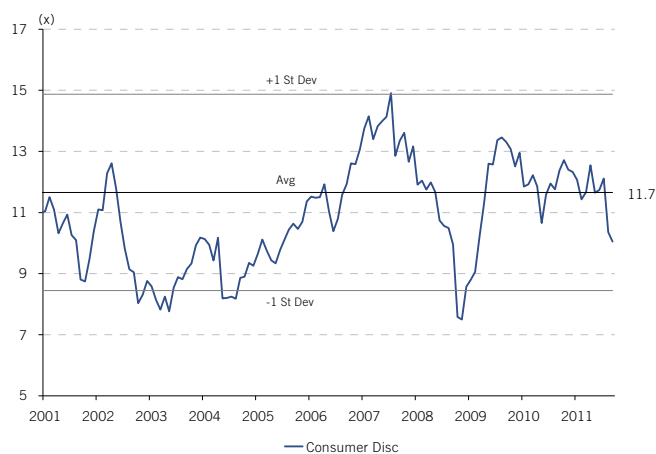
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 332. Sector ROE



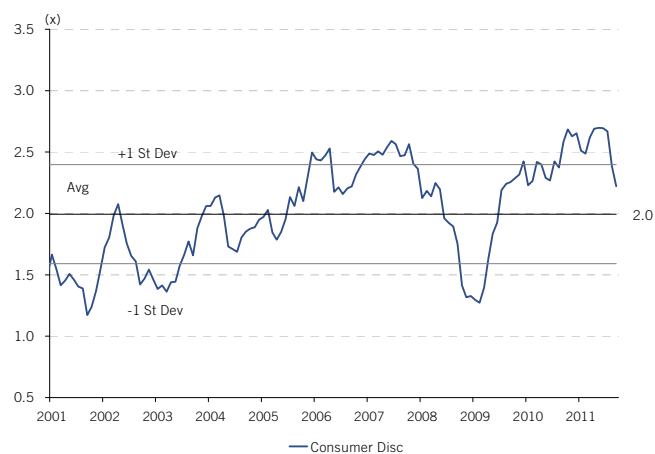
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 333. MSCI GEMs Sector Forward 12m P/E (Consensus)



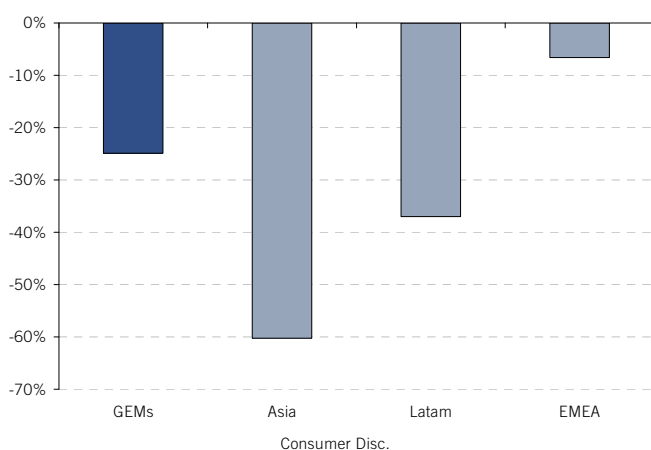
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 334. Sector Trailing P/B



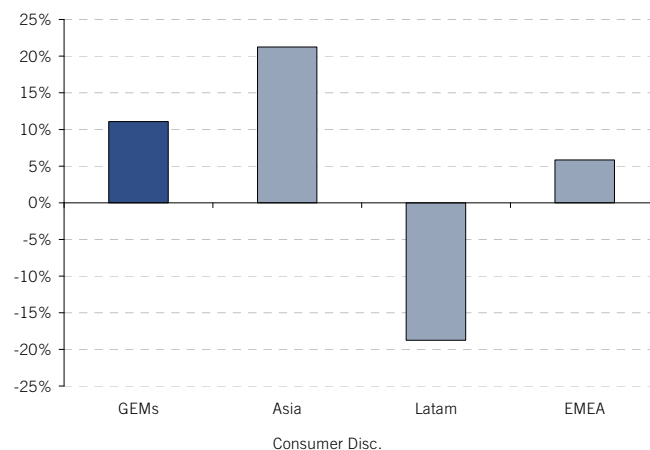
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 335. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 336. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

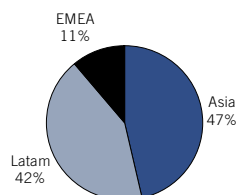
Figure 337. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	HYUNDAI MOTOR CO	Korea	27,618	(19.3)	-4.2%	12.3%	9.5	1.8	5.8	0.7
2	HYUNDAI MOBIS	Korea	19,753	(22.6)	-5.0%	9.9%	12.4	2.8	10.5	0.4
3	NASPERS N	South Africa	16,863	(22.5)	-7.2%	-30.9%	33.9	3.5	22.2	0.8
4	KIA MOTORS CORP	Korea	14,603	(9.9)	-5.1%	30.0%	9.3	2.6	6.9	0.7
5	ASTRA INTERNATIONAL	Indonesia	14,657	(2.3)	-9.0%	8.9%	15.6	4.8	12.5	2.7
6	GRUPO TELEvisa CPO	Mexico	8,868	(24.7)	2.5%	-26.9%	19.3	3.1	9.9	0.7
7	BELLE INT'L HLDGS(CN)	China	7,367	(17.1)	-14.0%	-11.1%	24.3	5.3	20.6	1.2
8	GENTING	Malaysia	5,823	(23.3)	-2.6%	-23.4%	12.4	2.0	8.4	0.7
9	LG ELECTRONICS (NEW)	Korea	5,499	(24.7)	-0.9%	-44.3%	n/m	0.9	11.5	0.3
10	GRUPO ELEKTRA	Mexico	5,554	48.9	-8.7%	64.8%	37.8	6.4	29.4	0.2

Performance in USD. Source: MSCI and FactSet

Consumer Staples – Underweight

Figure 338. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 339. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-13.3%	-4.2%	-13.6%	-3.6%	-3.1%	-5.5%	16.0	3.17	16.4%	2.2%
AC World	-7.6%	-1.7%	-3.8%	-4.6%	-1.2%	-2.7%	13.7	2.80	17.9%	3.1%
Asia	-10.0%	-5.3%	-10.0%	-5.4%	-4.6%	-6.6%	15.3	3.19	19.1%	2.2%
Latam	-15.3%	-2.7%	-14.1%	-0.3%	-1.6%	-2.8%	17.7	2.87	12.6%	2.3%
EMEA	-18.6%	-5.1%	-24.0%	-7.1%	-3.0%	-9.5%	15.6	5.20	25.3%	2.1%

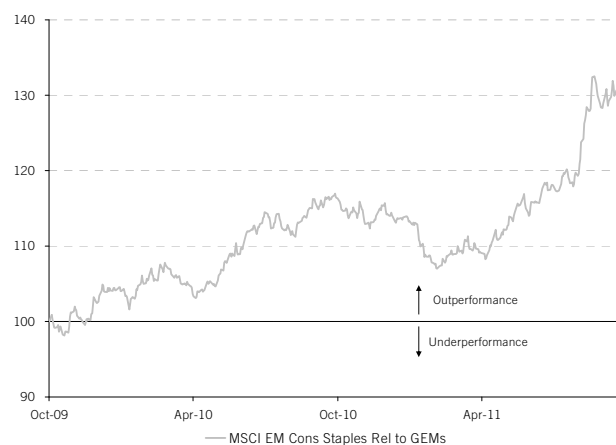
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 340. MSCI Sector Index in USD



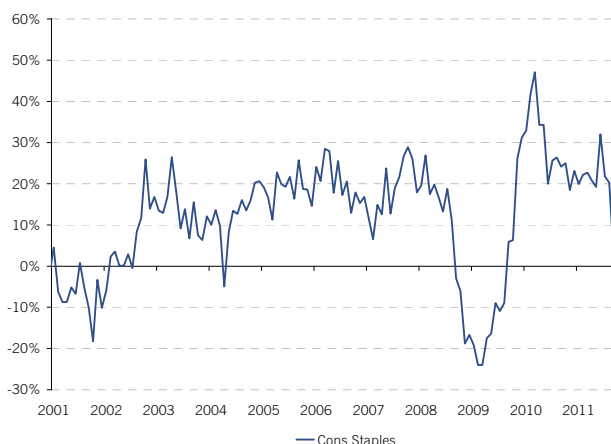
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 341. MSCI Index Relative to GEMs



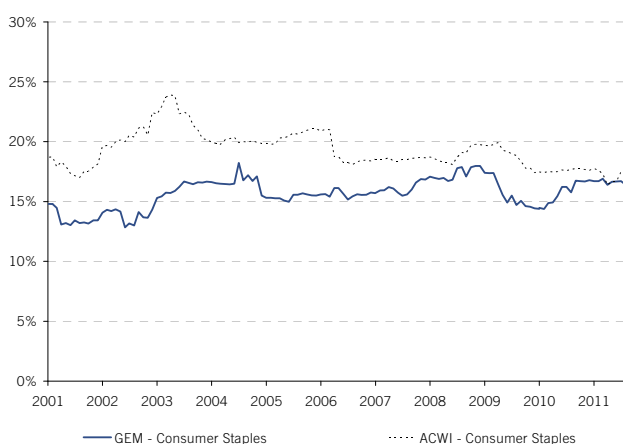
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 342. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



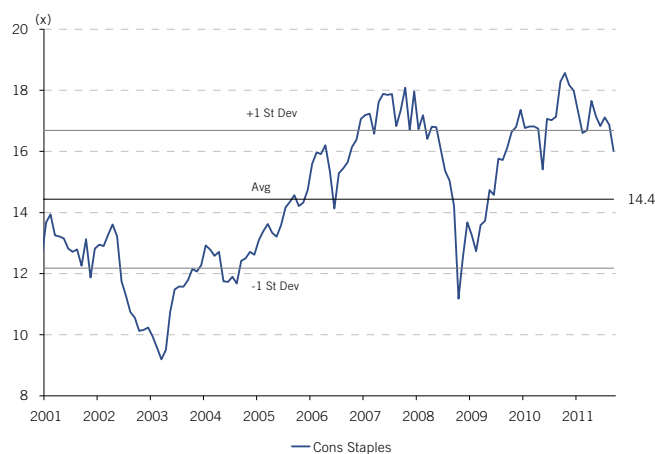
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 343. Sector ROE



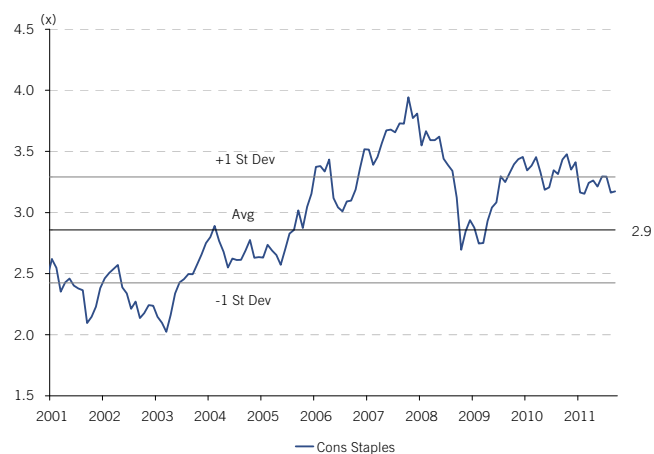
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 344. MSCI GEMs Sector Forward 12m P/E (Consensus)



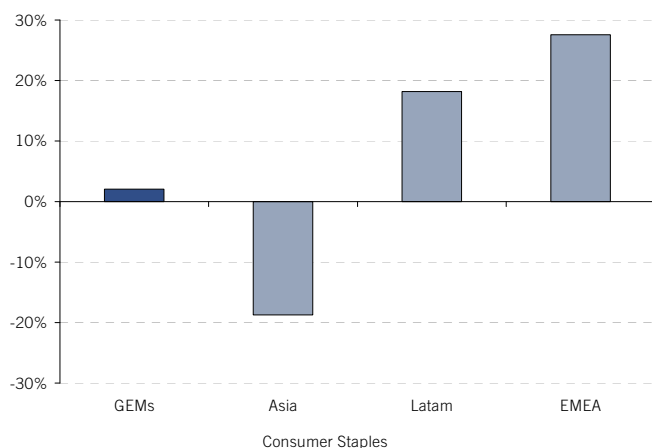
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 345. Sector Trailing P/B



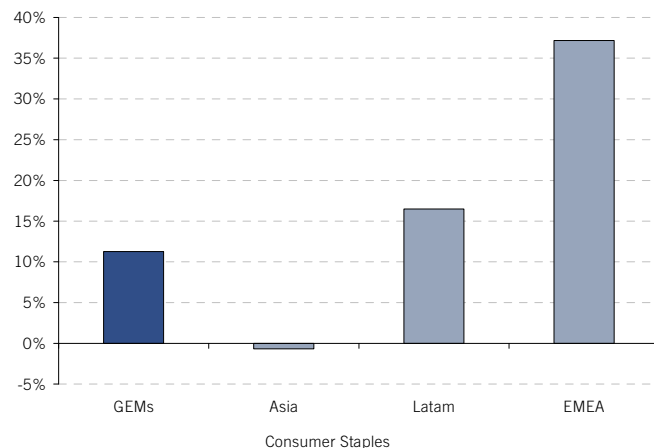
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 346. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 347. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

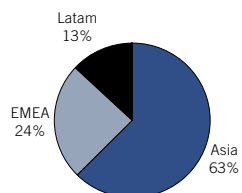
Figure 348. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	AMBEV PN	Brazil	22,971	(7.0)	-2.9%	-2.4%	21.2	7.1	17.8	3.4
2	WALMART MEXICO V	Mexico	14,427	(21.9)	1.5%	-18.4%	28.6	4.7	21.2	1.2
3	FEMSA UNIT UBD	Mexico	12,680	(1.7)	-2.3%	13.4%	23.4	2.7	16.0	1.2
4	BRASIL FOODS ON	Brazil	11,344	2.2	-4.3%	0.8%	18.7	2.0	11.6	2.0
5	ITC	India	9,072	(11.0)	-4.0%	-0.7%	29.0	9.3	25.6	1.4
6	KT&G CORP(KOREA TOBACCO)	Korea	6,853	0.3	0.1%	9.6%	9.1	2.2	7.9	4.1
7	HINDUSTAN UNILEVER	India	6,007	(9.5)	-5.0%	-5.6%	30.8	27.1	28.1	1.9
8	SHOPRITE HOLDINGS	South Africa	5,755	(6.0)	-3.5%	-9.5%	24.0	8.7	17.6	2.2
9	HENGAN INT'L GROUP CO	China	5,940	(9.9)	-8.9%	-14.6%	n/m	6.9	27.3	2.1
10	EMART CO	Korea	5,289	10.5	0.0%	-30.9%	12.7	1.9	9.7	0.4

Performance in USD. Source: MSCI and FactSet

Health Care – Underweight

Figure 349. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 350. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-17.9%	-4.0%	-23.7%	-8.7%	-2.8%	-15.9%	9.6	3.10	14.0%	1.2%
AC World	-10.8%	-2.4%	-3.1%	-8.8%	-2.0%	-2.8%	10.8	2.35	16.1%	2.9%
Asia	-15.9%	-4.1%	-22.3%	-10.1%	-3.4%	-17.2%	18.2	3.38	14.3%	0.8%
Latam	n/a	-4.5%	n/a	n/a	-3.4%	n/a	17.6	2.97	8.8%	1.1%
EMEA	-17.8%	-3.6%	-25.7%	-2.4%	-0.8%	-11.6%	12.9	2.60	16.0%	2.1%

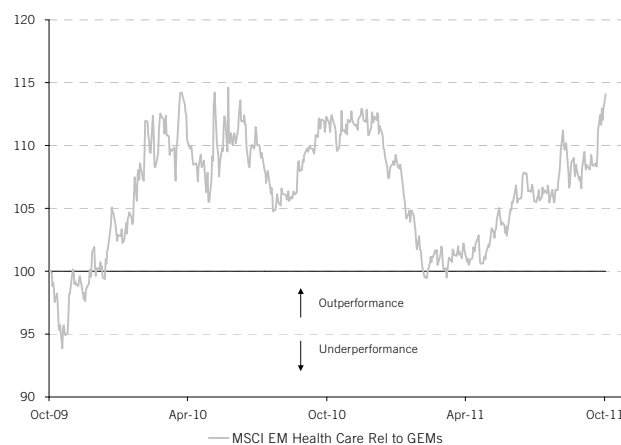
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 351. MSCI Sector Index in USD



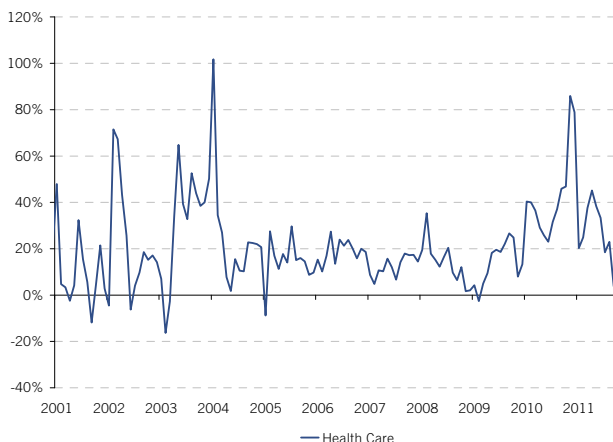
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 352. MSCI Index Relative to GEMs



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 353. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



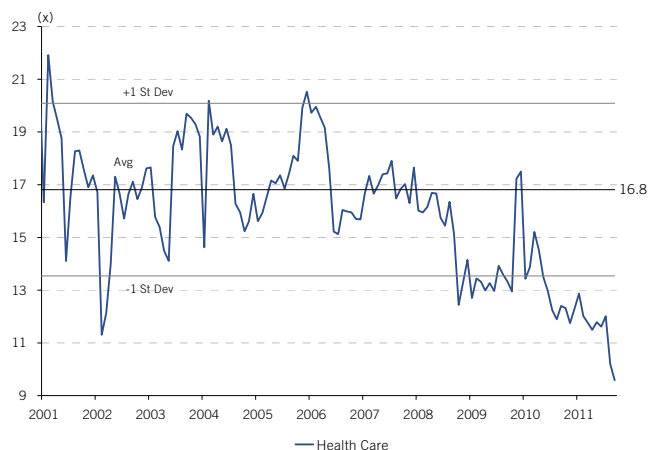
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 354. Sector ROE



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 355. MSCI GEMs Sector Forward 12m P/E (Consensus)



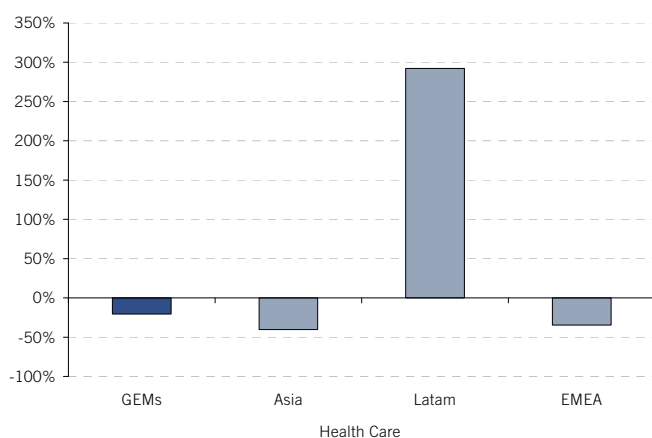
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 356. Sector Trailing P/B



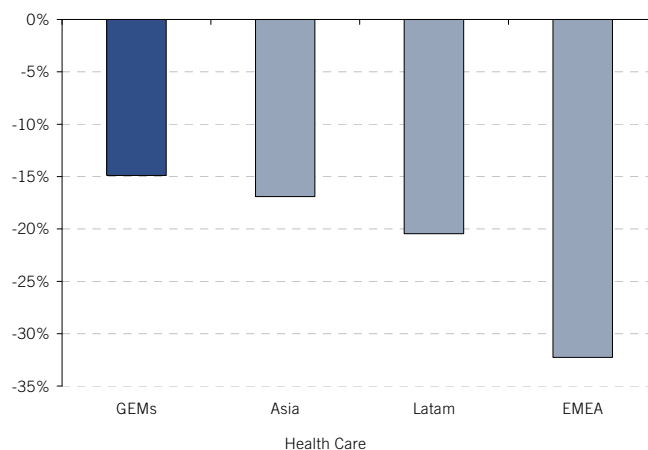
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 357. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 358. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

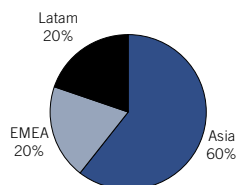
Figure 359. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	ASPEN PHARMACARE HLDGS	South Africa	3,200	(8.4)	-5.7%	-23.1%	17.9	3.0	15.4	1.2
2	DR REDDY'S LABORATORIES	India	3,074	(11.6)	-3.0%	-21.0%	21.7	6.2	17.5	0.8
3	SUN PHARMACEUTICAL IND	India	3,066	(8.5)	-3.1%	-15.6%	25.3	5.9	22.8	0.6
4	CELLTRION	Korea	2,620	(9.5)	-0.6%	26.2%	39.6	6.3	35.7	0.2
5	SINOPHARM GROUP CO H	China	2,098	(20.7)	-7.6%	-29.3%	30.0	2.7	24.0	0.9
6	RICHTER GEDEON	Hungary	1,914	(30.7)	0.3%	-33.0%	11.3	1.3	7.7	2.9
7	DIAGNOSTICOS AMERICA ON	Brazil	2,014	(35.9)	-7.2%	-41.0%	n/m	2.0	25.6	0.8
8	CIPLA	India	1,891	(22.4)	-1.4%	-31.5%	23.5	3.4	18.3	0.7
9	LIFE HEALTHCARE GROUP	South Africa	1,751	(7.5)	-2.8%	3.9%	27.9	6.5	20.5	3.1
10	SHANDONG WEIGAO GP MED H	China	1,802	(22.0)	-11.1%	-29.5%	n/m	6.1	32.7	0.5

Performance in USD. Source: MSCI and FactSet

Financials – Overweight

Figure 360. Sector Breakdown



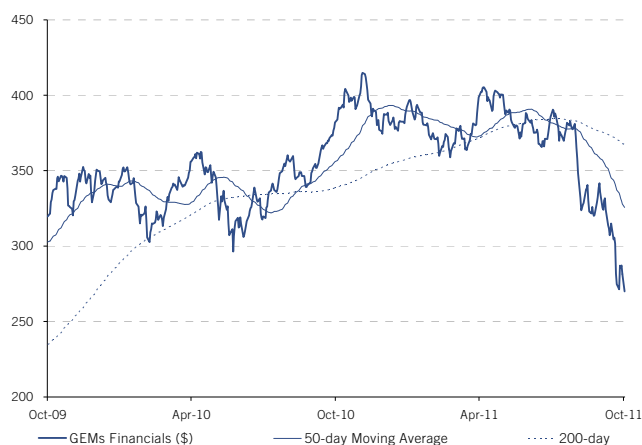
Source: MSCI, FactSet and CIRA

Figure 361. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-26.4%	-6.5%	-32.9%	-20.0%	-5.6%	-28.0%	7.8	1.40	14.6%	3.2%
AC World	-24.0%	-4.7%	-27.8%	-20.9%	-4.0%	-26.3%	8.2	0.87	8.7%	3.8%
Asia	-26.2%	-7.2%	-32.8%	-23.1%	-6.7%	-30.6%	7.6	1.33	14.1%	3.2%
Latam	-27.3%	-3.9%	-32.5%	-15.1%	-2.8%	-24.6%	9.0	1.65	15.4%	2.8%
EMEA	-26.1%	-6.8%	-33.7%	-14.1%	-4.9%	-22.6%	7.7	1.43	15.3%	3.6%

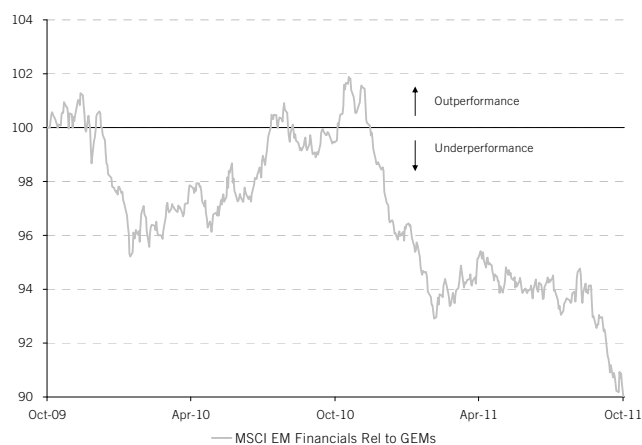
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 362. MSCI Sector Index in USD



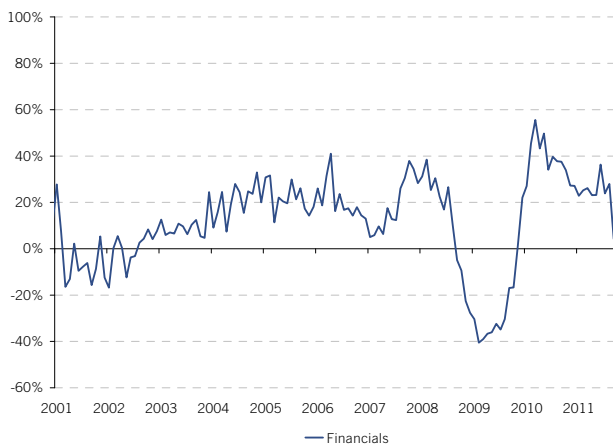
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 363. MSCI Index Relative to GEMs



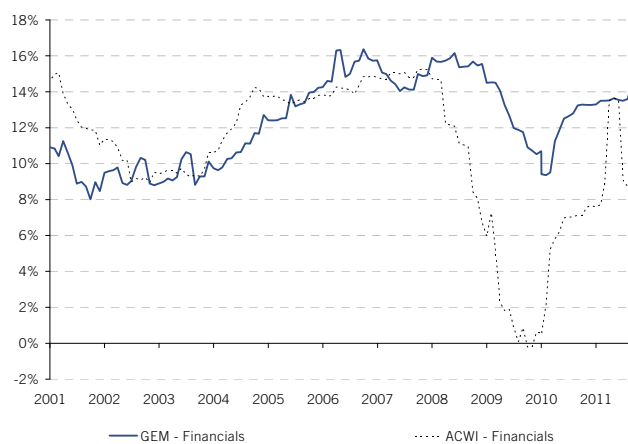
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 364. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 365. Sector ROE



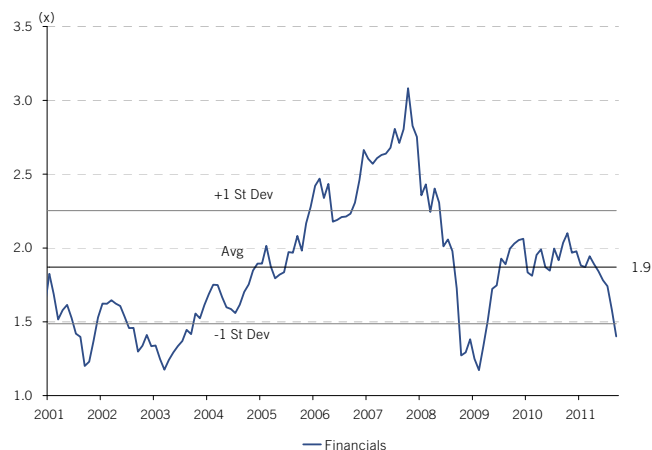
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 366. MSCI GEMs Sector Forward 12m P/E (Consensus)



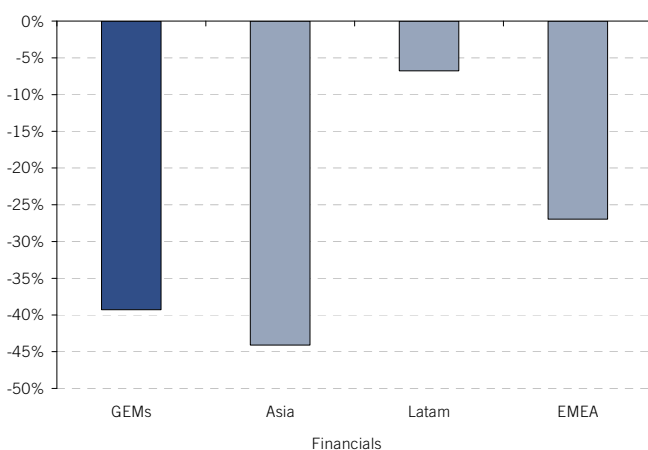
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 367. Sector Trailing P/B



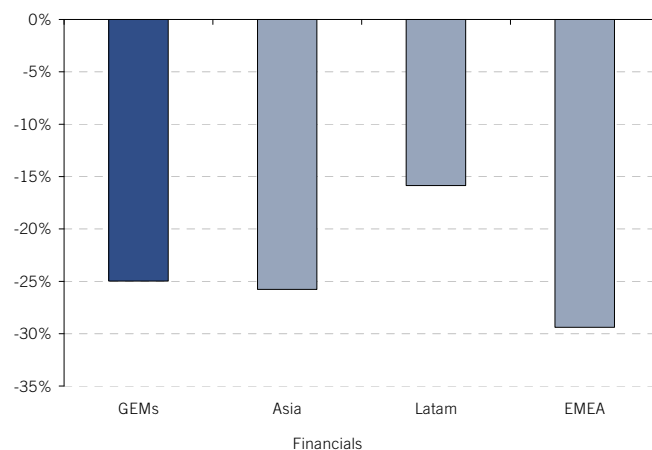
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 368. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 369. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

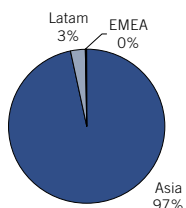
Figure 370. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	ITAU UNIBANCO PN	Brazil	54,560	(0.2)	0.2%	-0.1%	15.1	2.7	n/a	2.5
2	ICBC H	China	50,459	11.5	3.0%	14.9%	11.9	2.4	n/a	3.1
3	CHINA CONSTRUCTION BK H	China	45,065	4.5	3.2%	7.9%	11.6	2.3	n/a	3.3
4	BANCO BRADESCO PN	Brazil	39,206	4.2	0.2%	4.4%	12.5	2.6	n/a	2.8
5	BANK OF CHINA H	China	34,913	5.5	3.3%	9.0%	10.3	1.7	n/a	3.8
6	SBERBANK RUSSIA COM(RUB)	Russia	32,403	10.0	2.1%	12.3%	13.3	2.5	n/a	0.1
7	CHINA LIFE INSURANCE H	China	27,935	(8.1)	3.8%	-4.6%	20.2	3.4	n/a	2.8
8	ICICI BANK	India	20,120	(2.3)	-0.4%	-2.7%	24.0	2.3	n/a	1.1
9	PING AN INSURANCE H	China	17,382	(9.3)	9.5%	-0.7%	34.0	4.6	n/a	0.7
10	SHINHAN FINANCIAL GROUP	Korea	18,317	(2.5)	1.6%	-0.9%	10.4	1.0	n/a	1.5

Performance in USD. Source: MSCI and FactSet

Information Technology – Overweight

Figure 371. Sector Breakdown



Source: MSCI, FactSet and CIRA

Figure 372. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-17.9%	-3.4%	-25.2%	-11.6%	-2.6%	-21.0%	11.3	1.91	14.7%	2.8%
AC World	-11.0%	-1.3%	-12.5%	-10.0%	-1.1%	-12.3%	11.1	2.38	18.0%	1.6%
Asia	-18.1%	-3.4%	-25.8%	-12.2%	-2.6%	-21.8%	11.5	1.87	14.4%	2.8%
Latam	-8.7%	-3.2%	1.9%	8.5%	-2.1%	15.2%	13.6	13.00	89.5%	4.1%
EMEA	-31.9%	-1.1%	-32.2%	-18.3%	0.0%	-23.6%	7.9	0.70	8.7%	4.4%

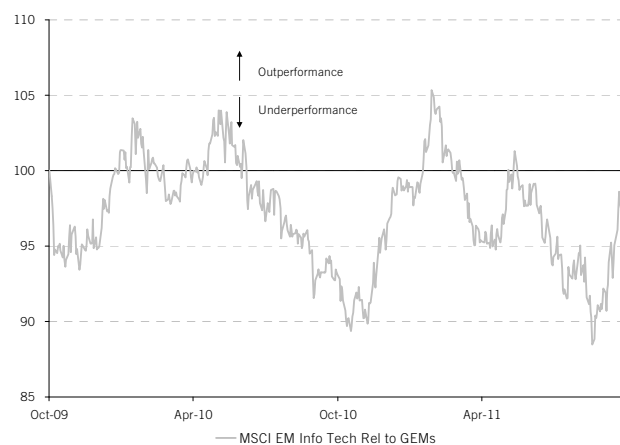
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 373. MSCI Sector Index in USD



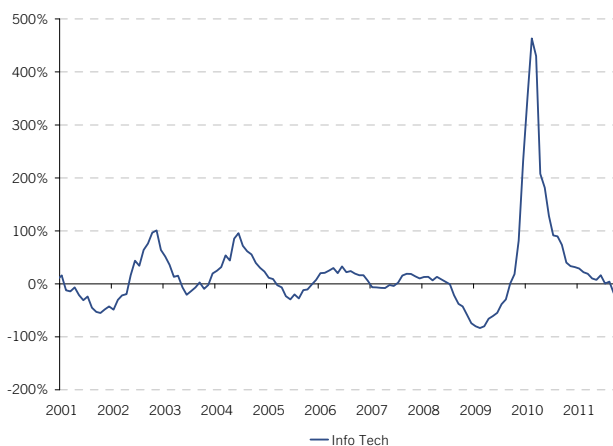
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 374. MSCI Index Relative to GEMs



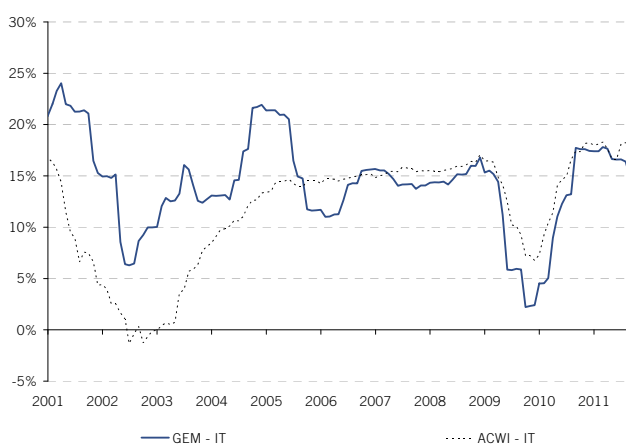
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 375. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



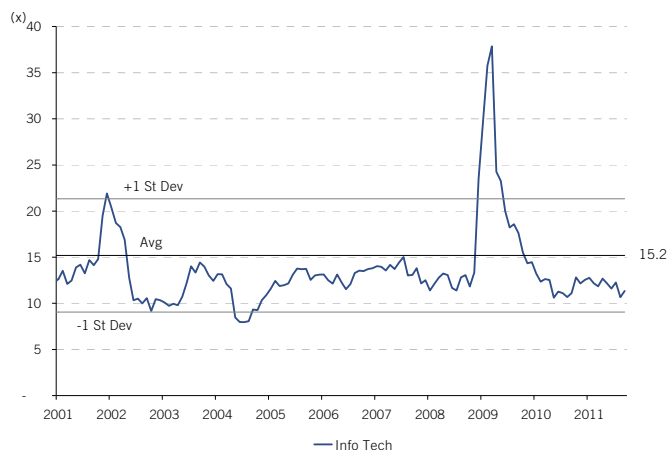
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 376. Sector ROE



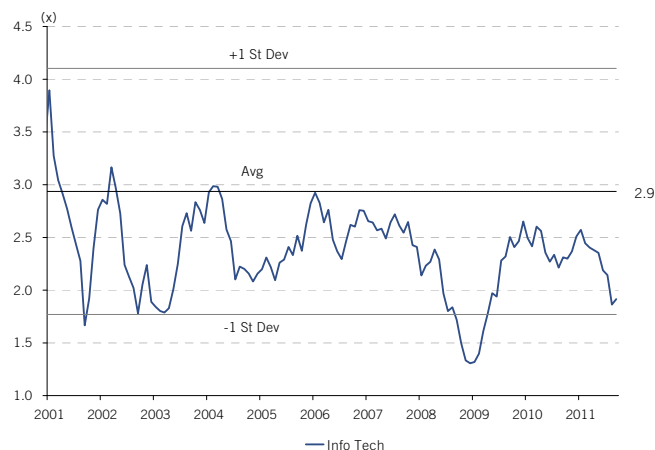
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 377. MSCI GEMs Sector Forward 12m P/E (Consensus)



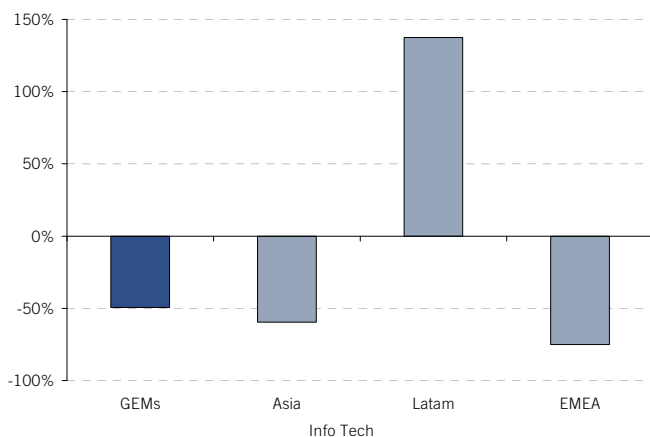
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 378. Sector Trailing P/B



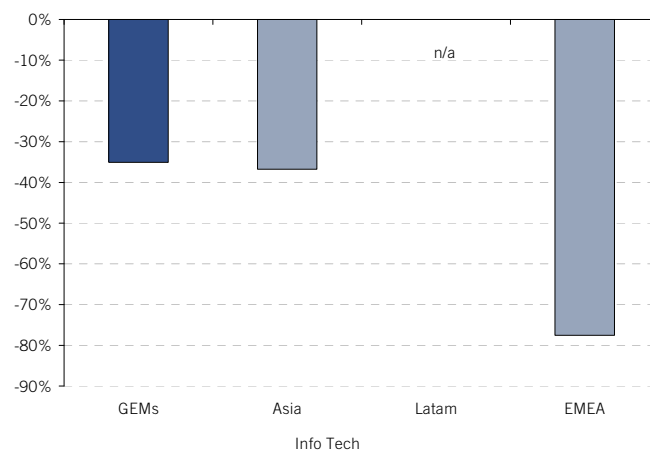
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 379. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 380. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

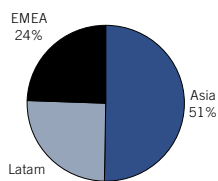
Figure 381. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	SAMSUNG ELECTRONICS CO	Korea	78,773	(7.8)	-2.8%	-17.1%	8.7	1.4	4.8	0.7
2	TAIWAN SEMICONDUCTOR MFG	Taiwan	56,539	(8.6)	-2.0%	-7.5%	11.3	3.2	7.0	4.3
3	INFOSYS	India	22,272	(20.6)	-4.6%	-35.9%	20.6	5.6	18.4	1.2
4	HON HAI PRECISION IND CO	Taiwan	20,512	(27.2)	-1.1%	-38.7%	10.1	1.5	6.3	1.4
5	TENCENT HOLDINGS LIM(CN)	China	21,326	(22.3)	-11.3%	-13.9%	25.9	9.9	23.0	0.3
6	HTC CORP	Taiwan	16,403	(29.8)	-2.6%	-25.5%	10.1	7.1	9.9	5.4
7	MEDIATEK INC	Taiwan	11,517	2.0	-3.8%	-25.6%	21.3	3.9	18.3	5.9
8	SAMSUNG ELECTRONICS PREF	Korea	9,961	(7.6)	-0.1%	-15.4%	5.9	1.0	3.3	1.0
9	TATA CONSULTANCY	India	9,949	(20.0)	0.0%	-18.8%	21.2	8.3	19.6	1.4
10	HYNIX SEMICONDUCTOR	Korea	9,122	(22.8)	-4.4%	-18.0%	6.0	1.6	2.6	0.7

Performance in USD. Source: MSCI and FactSet

Telecommunications Services – Underweight

Figure 382. Sector Breakdown



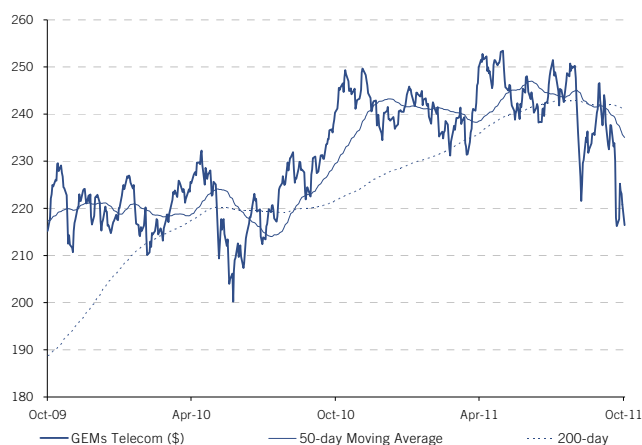
Source: MSCI, FactSet and CIRA

Figure 383. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-11.0%	-3.7%	-12.9%	-3.1%	-2.8%	-6.0%	11.1	2.16	16.4%	4.1%
AC World	-11.1%	-2.2%	-9.3%	-7.4%	-1.5%	-7.6%	10.9	1.64	14.4%	5.6%
Asia	0.7%	-3.7%	-0.8%	2.8%	-3.4%	0.4%	12.1	2.01	15.0%	4.1%
Latam	-18.1%	-3.6%	-20.7%	-3.4%	-2.6%	-10.3%	9.2	2.33	20.1%	3.2%
EMEA	-23.2%	-3.7%	-24.9%	-12.7%	-1.8%	-12.4%	10.1	2.35	15.7%	5.1%

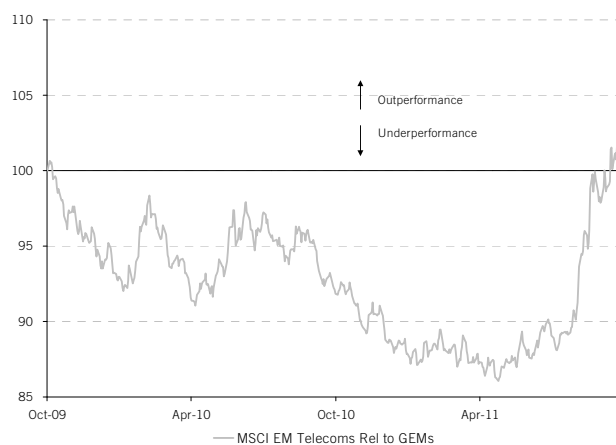
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 384. MSCI Sector Index in USD



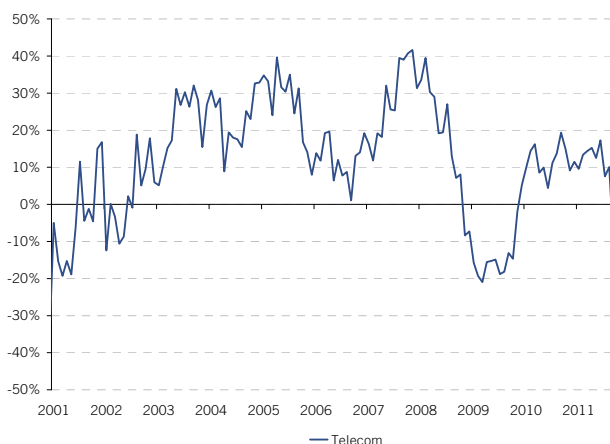
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 385. MSCI Index Relative to GEMs



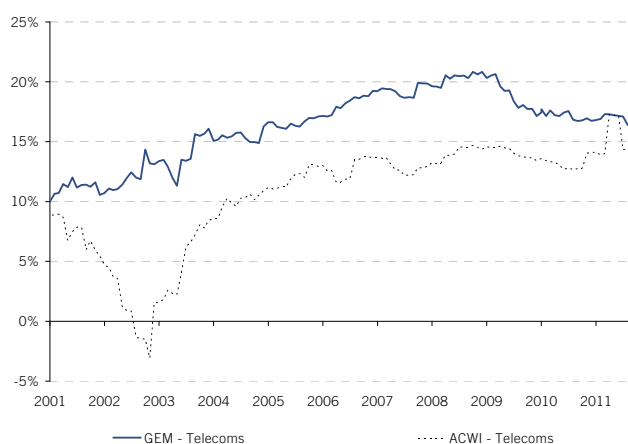
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 386. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 387. Sector ROE



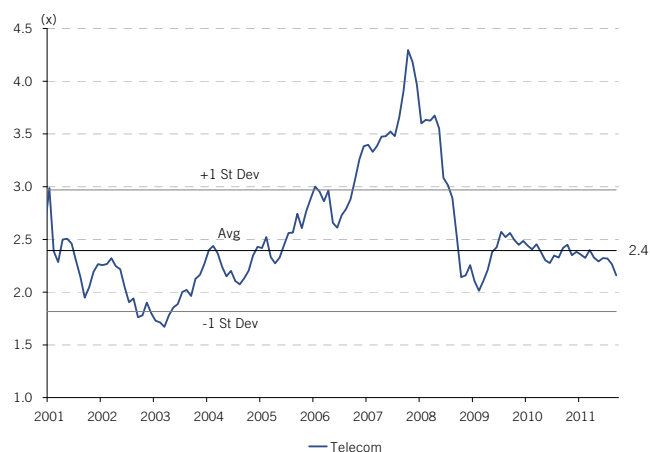
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 388. MSCI GEMs Sector Forward 12m P/E (Consensus)



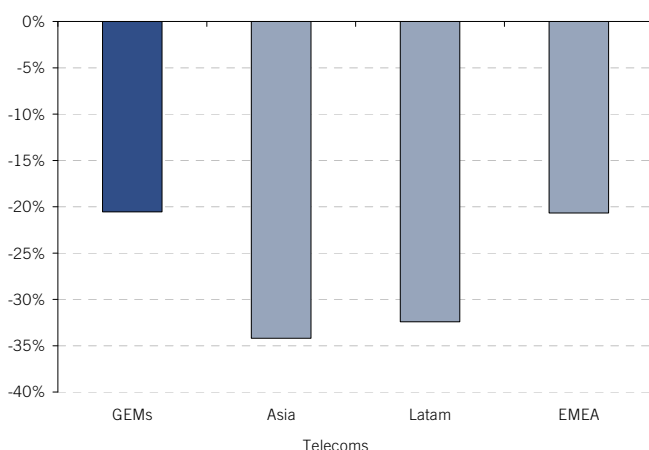
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 389. Sector Trailing P/B



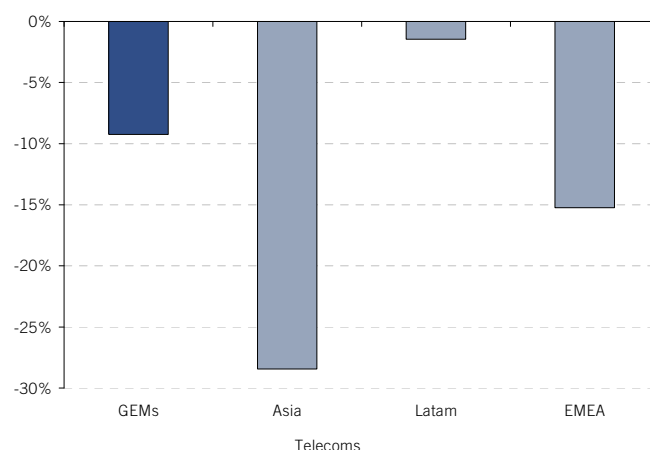
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 390. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 391. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

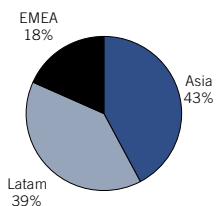
Figure 392. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	CHINA MOBILE	China	59,623	7.0	-4.2%	-4.4%	10.3	2.1	5.9	4.1
2	AMERICA MOVIL L	Mexico	45,615	(17.8)	-3.1%	-25.4%	11.7	3.9	5.6	1.1
3	MTN GROUP	South Africa	27,955	(22.4)	-3.6%	-21.8%	17.0	3.2	8.3	4.7
4	CHUNGHWA TELECOM CO	Taiwan	12,660	(3.2)	-0.2%	4.6%	16.5	2.3	9.8	5.4
5	CHINA UNICOM	China	12,288	3.5	-10.1%	31.1%	78.9	1.5	9.1	0.6
6	CHINA TELECOM CORP H	China	8,842	(1.6)	-3.4%	17.5%	20.0	1.4	4.9	1.7
7	TELEKOMUNIKASI INDONESIA	Indonesia	8,715	0.9	-3.2%	-5.2%	13.4	3.5	5.9	4.2
8	TELESP PN	Brazil	7,984	(7.7)	-5.7%	n/a	20.2	1.3	9.9	10.8
9	MOBILE TELESYS ADR (USD)	Russia	6,354	(35.3)	-3.2%	-42.9%	9.6	3.7	3.8	8.5
10	ROSTELECOM COMMON (RUB)	Russia	6,107	n/a	-9.2%	n/a	13.7	2.0	5.3	n/a

Performance in USD. Source: MSCI and FactSet

Utilities – Neutral

Figure 393. Sector Breakdown



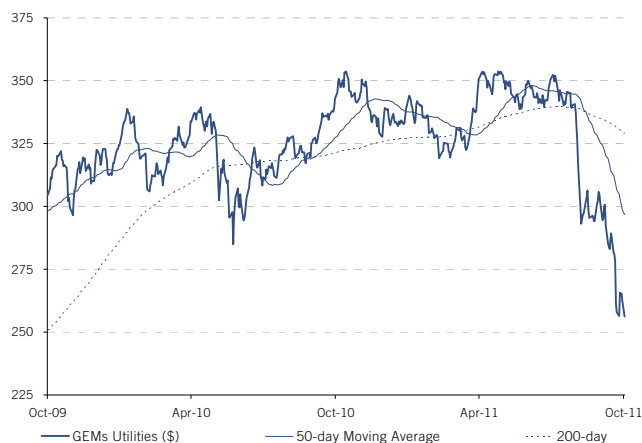
Source: MSCI, FactSet and CIRA

Figure 394. Key Metrics (MSCI Index; end-quarter)

	Performance						Valuation			
	US\$			Local Currency			Forward P/E	Trailing P/B	ROE	Div Yield
	Last Q	MTD	YTD	Last Q	MTD	YTD				
GEMs	-24.8%	-4.4%	-26.3%	-16.4%	-3.4%	-20.6%	10.0	0.95	7.6%	3.8%
AC World	-10.3%	-3.0%	-12.0%	-7.5%	-2.5%	-11.5%	13.5	1.22	6.9%	4.8%
Asia	-22.1%	-4.6%	-27.9%	-18.1%	-4.0%	-25.0%	11.8	0.96	5.8%	2.6%
Latam	-24.2%	-4.7%	-22.3%	-12.1%	-3.4%	-12.4%	9.6	1.07	9.7%	5.1%
EMEA	-31.5%	-3.6%	-30.9%	-21.3%	-2.2%	-26.4%	9.8	0.77	7.7%	3.5%

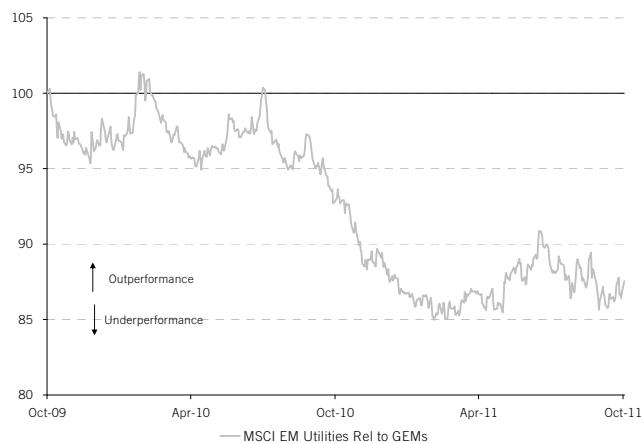
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 395. MSCI Sector Index in USD



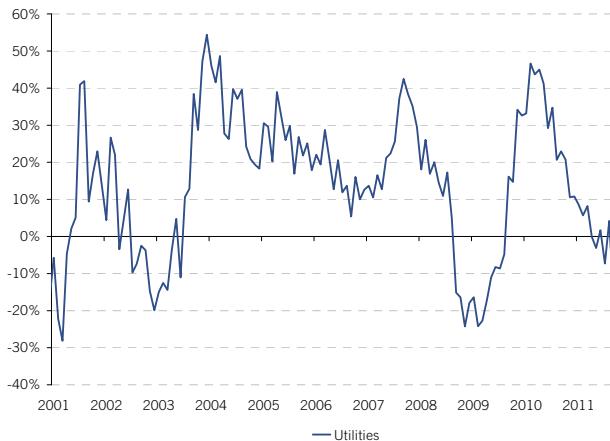
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 396. MSCI Index Relative to GEMs



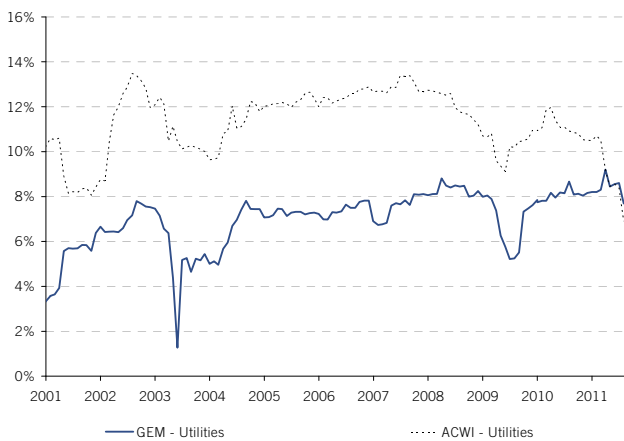
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 397. MSCI GEMs Sector 12m Earnings Growth Forecast (Consensus)



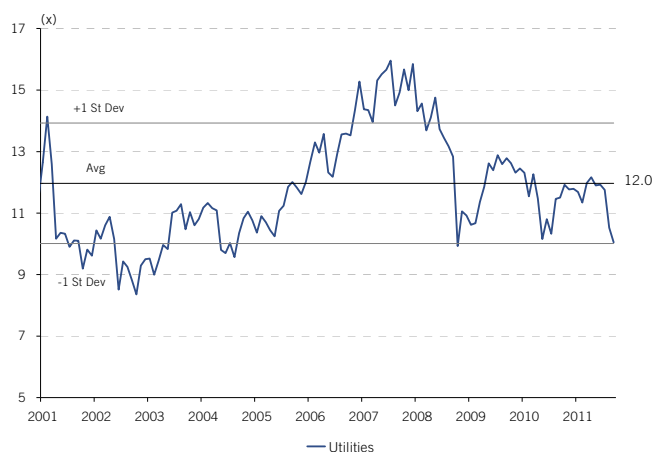
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 398. Sector ROE



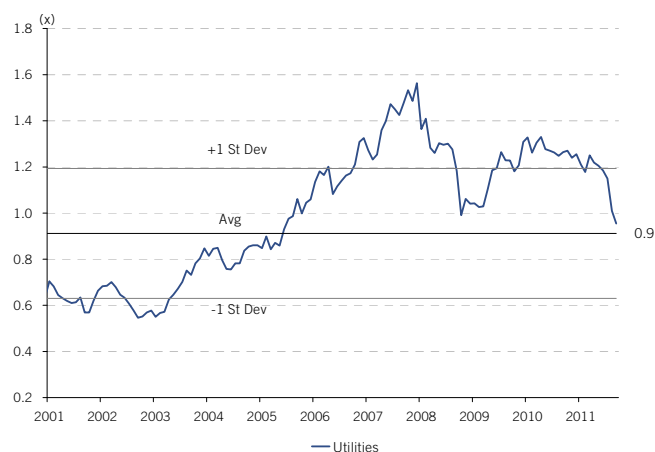
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 399. MSCI GEMs Sector Forward 12m P/E (Consensus)



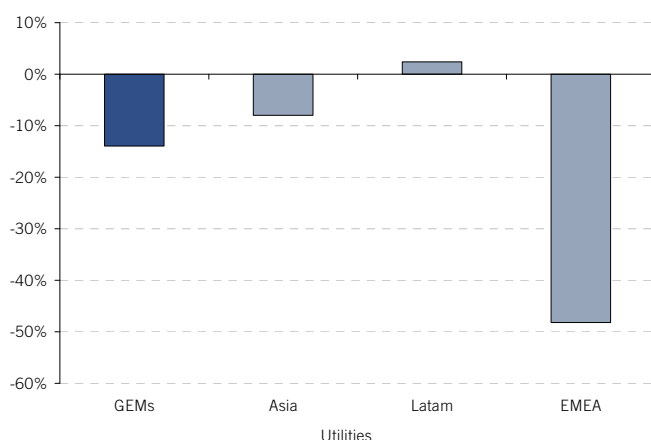
Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 400. Sector Trailing P/B



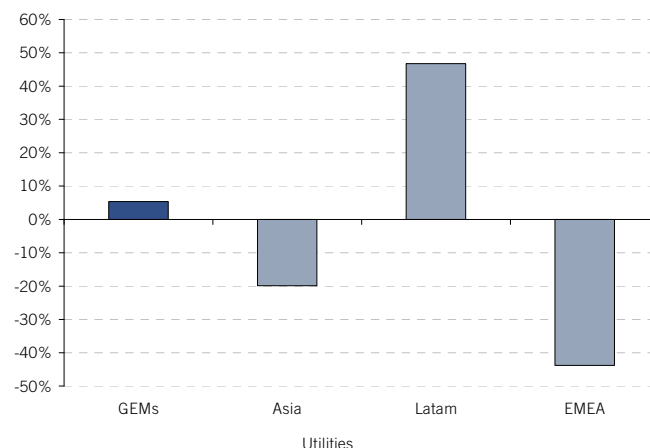
Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 401. Trailing P/E Premium (Discount) vs History



Source: MSCI, Datastream and Citi Investment Research and Analysis

Figure 402. P/B Premium (Discount) vs History



Source: MSCI, FactSet and Citi Investment Research and Analysis

Figure 403. Key Companies (MSCI Index; end-quarter valuation data)

	Name	Country	MSCI Market Cap (US\$, mn)	Performance			Trailing P/E	Price/Book	Price/Cash Earnings	Div Yield
				Last Q	MTD	YTD				
1	CEZ CESKE ENER. ZAVODY	Czech Repub	6,221	(25.0)	-3.7%	-11.3%	10.4	1.7	6.2	7.0
2	CEMIG PN	Brazil	5,739	(26.3)	-5.5%	-12.3%	7.3	1.5	5.2	3.2
3	KEPCO KOREA ELECT. POWER	Korea	4,586	(32.7)	-3.2%	-35.0%	n/m	0.2	2.2	n/a
4	ENDESA (CHILE)	Chile	4,718	(23.9)	-8.7%	-29.9%	12.7	2.5	9.3	3.5
5	TENAGA NASIONAL	Malaysia	4,414	(27.8)	-3.5%	-28.0%	21.8	1.0	5.4	3.6
6	ENERSIS	Chile	4,494	(25.2)	-7.8%	-31.7%	12.0	1.5	6.3	1.6
7	POLSKA GRUPA ENER	Poland	3,866	(32.4)	-3.4%	-27.3%	9.7	1.0	5.7	3.3
8	RUSHYDRO (RUB)	Russia	3,772	(32.2)	-3.8%	-42.1%	39.1	0.6	15.6	0.8
9	GAIL INDIA	India	3,190	(15.1)	-1.0%	-27.6%	12.6	2.5	12.6	1.8
10	PERUSAHAAN GAS NEGARA	Indonesia	3,320	(35.2)	-6.8%	-42.3%	10.3	5.0	8.1	5.8

Performance in USD. Source: MSCI and FactSet

Emerging Markets: Country and Sector Weights

Figure 404. MSCI Matrix

		Energy	Materials	Industrials	Consumer Disc	Cons Staples	Health Care	Financials	Info Tech	Telecom	Utilities
	100.0	13.8	13.9	6.6	8.1	7.5	1.1	23.7	12.9	8.8	3.5
Brazil	14.6	2.97	3.36	0.51	0.65	1.59	0.14	3.53	0.39	0.54	0.87
Chile	1.6		0.35	0.27	0.09	0.23		0.19		0.07	0.43
China	16.8	3.31	0.92	1.11	0.95	0.96	0.16	5.32	1.06	2.64	0.36
Colombia	0.9	0.26	0.14			0.06		0.41			0.08
Czech Rep	0.4							0.09		0.08	0.20
Egypt	0.3			0.11				0.15		0.09	
Hungary	0.3	0.09					0.06	0.11		0.03	
India	7.6	0.98	0.74	0.56	0.62	0.56	0.36	2.11	1.23	0.02	0.38
Indonesia	3.0	0.31	0.21	0.14	0.47	0.38	0.05	0.95		0.34	0.11
Korea	14.7	0.45	1.89	2.12	2.86	0.73	0.11	2.15	4.02	0.19	0.17
Malaysia	3.4	0.04	0.16	0.60	0.39	0.40		1.08		0.38	0.32
Mexico	4.6		0.71	0.19	0.49	1.31		0.31		1.61	
Morocco	0.2							0.08		0.10	
Peru	0.6		0.37					0.20			
Philippines	0.7			0.15	0.03			0.28		0.08	0.12
Poland	1.5	0.20	0.24		0.05	0.03		0.65	0.03	0.13	0.20
Russia	6.4	3.70	0.97			0.14		0.86		0.45	0.24
South Africa	7.7	0.74	1.98	0.33	1.02	0.48	0.21	1.92		1.07	
Taiwan	11.5	0.10	1.70	0.39	0.43	0.27		1.78	6.18	0.64	
Thailand	1.8	0.59	0.18	0.01	0.03	0.19		0.67		0.12	0.03
Turkey	1.5	0.08	0.03	0.14	0.05	0.18		0.83		0.19	

Source: MSCI, FactSet and Citi Investment Research and Analysis

Appendix: Asset Allocation Methodology

Our GEM Allocation models rank the attractiveness of the three EM regions, the countries and the sectors that are included in the MSCI GEMs index according to ten factors. These may be grouped into five sub-models: i) earnings/ROE; ii) valuation/momentum; iii) macro (real growth and interest rate); iv) beta; and v) a qualitative input. Within each sub-model, some countries will of course score more highly on certain factors than on others. We weight each of these individual factors and then aggregate to produce overall rankings. In this report, we have made some adjustments to the definitions of some of these model factors¹⁴.

The ten factors in each model are as follows:

- **Earnings Growth**, calculated as the weighted average of dollar EPS growth rates over three periods: short-term IBES forecasts (50% weight), forward 3-year CAGR (30%) and 5-year historical average (20%);
- **Earnings Momentum** (rate of change of earnings), calculated as a weighted average of six-month (50% weight), three-month (30%) and one-month (20%) measures;
- **Earnings Revision Index (ERI)**, measured as upgrades (to earnings forecasts) minus downgrades, as a proportion of total estimate changes 'across the market', not just CIRA estimates;
- **Rate of Return on Equity (ROE)**, measured as the deviation of a country's ROE from its long-term average;
- **Price Momentum**, measured as a weighted average of changes over three months;
- **Valuation Composite**, measured as an equally-weighted average of the (1) forward P/E and (2) P/BV ratio, both compared to a market's own history, (3) dividend yield and (4) earnings yield ratio (earnings yields/bond yields), which takes into consideration the cost of capital;
- **Beta**, which will be entered into the model as a positive (high beta is positive for markets) or a negative relationship (high beta is a negative for markets) based on our view of the likely short-term direction of equity markets. Currently we have a beta-on bias;
- **GDP growth**, measured as the forecast annual growth of the real GDP for the next four quarters compared to other emerging economies;
- **Interest rates**, measured as a weighted average of current real rates (policy rates) and the forecast change in nominal rates over the next four quarters;
- **Qualitative Factor**, which allows us to incorporate exogenous factors – both positive and negative – not covered in the models, such as political risk (e.g. elections), equity issuance, exposure to high risk areas of the world and one-off factors (such as the Olympics in Brazil).

¹⁴ To reiterate, the averaging process applies to rankings (rather than actual scores) in each of these models.

Notes

Notes

Notes

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Appendix A-1

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A member of the household of Marcelo Inoue is employed in operational capacity in Itau Unibanco Holding SA.

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