30 April 2014 │ 52 pages

Global Economic Outlook and Strategy

April 2014

- Our global growth forecasts are little changed this month, at 3.1% for 2014 (unchanged from last month) and 3.5% for 2015 (up a tenth), at current exchange rates. We expect US growth will rebound to 3%+ QoQ SAAR in Q2 and beyond as adverse weather effects in Q1 fade, while the UK is our biggest above-consensus growth call among the major economies. Conversely, our 2014-15 growth forecasts are a bit below consensus for Brazil, Japan, South Africa and China.

- With inflation likely to stay well below the ECB's target for an extended period, we continue to expect the ECB to cut the refi rate in coming months and to set a slightly negative deposit rate. Our base case is for7 easing in June, but the ECB may act in May. In addition, we now also expect that the low inflation outlook will prompt the ECB to implement QE later this year, with an initial asset purchase program of €1tn, focused mainly on government debt. We expect that QE will succeed in loosening financial conditions through a range of channels. But, with the euro supported by large current account surplus plus inflows of portfolio and FDI capital, we expect that the stimulus from QE will come mainly through reduced borrowing costs and asset price gains in the euro area rather than significant euro weakness. We lift our euro area growth forecasts by 0.2-0.3 percentage points per year for 2015-17, with a more modest upgrade (0.1-0.2 pp each year) to our inflation forecasts.

- We highlight three other global themes. First, we still worry about downside growth risks in export-oriented emerging markets, given the sluggish world trade growth and erosion of the prior export outperformance of EMs. Second, we now expect that further BoJ easing will be delayed from mid-year (our previous base case) until the autumn given the BoJ's bullish view on growth prospects and possible difficulties in disentangling whether probable Q2 weakness after the consumption tax hike is temporary or lasting. Third, China's authorities are likely to provide new stimulus to prevent a sustained slowdown in growth below 7% YoY. Most likely, stimulus will come through China's standard means of credit and investment. But, we are paying close attention to the currency — which has weakened significantly in recent weeks — in case the authorities also start to use significant currency depreciation as a tool for stimulus.

Willem Buiter
+1-212-816-2363
willem.buiter@citi.com

Guillermo Mondino
+1-212-816-6499
guillermo.mondino@citi.com

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

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

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

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

With thanks to Jan Maguire

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Figure 1. Currency and Interest Rate Forecasts, as of 30 April 2014

	30 April 2014	2Q 14F	3Q 14F	4Q 14F	1Q 15F	2Q 15F	3Q 15F	4Q 15F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00
10-Yr. Treasuries (Period Ave.)	2.70	2.85	3.05	3.25	3.40	3.45	3.50	3.55
Euro Area: US$/€	1.38	1.40	1.37	1.35	1.35	1.37	1.38	1.39
Euro Repo Rate	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. Bunds (Period Ave.)	1.50	1.60	1.60	1.60	1.70	1.70	1.80	1.80
Japan: Yen/US$	102	104	105	107	108	110	111	113
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.61	0.55	0.70	0.85	0.95	1.05	1.15	1.10

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

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

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Figure 2. Forecast Highlights and Changes

■ Global	Our global growth forecasts are little changed this month, at 3.1% for 2014 (unchanged from last month) and 3.5% for 2015 (up a tenth).
■ United States	We believe the Q1 weakness was the temporary effect of harsh winter weather, and anticipate a snap back in growth in Q2 and Q3. Recent data have hinted at a rebound in both demand and output. Economic fundamentals actually have improved, especially as fiscal drag is dissipating and financial conditions are providing a significant tailwind for growth. Nevertheless, we do not expect the Fed to hike rates until mid-2015, with inflation remaining below the 2% target.
■ Euro Area	The large output gap and strong euro are imparting a significant disinflationary bias to the euro area HICP trajectory, highlighting the need for the ECB to adopt a more stimulative monetary policy stance. Although economic activity is accelerating a little, we believe that the Governing Council will likely cut its key interest rates (including the depo rate) in June, and will likely launch a large-scale asset purchase programme in the second half of 2014.
■ China	Barring a strong export rebound, we expect GDP growth to decelerate further to 7%YoY in 2Q, which could trigger more supportive policies to pull down borrowing costs and boost investment in targeted areas. The RMB may continue to weaken against the dollar in the near term before gaining support from China-US dialogue and an export rebound.
■ Japan	The outlook for BoJ policy is quite uncertain. BoJ officials have been reiterating a bullish view on the economy, especially inflation. While we believe that the BoJ will take an additional easing action later this year, we now expect the timing will be delayed into autumn.
■ United Kingdom	The economy continues to grow solidly, with 0.8% QoQ growth in Q1, and we look for even faster growth in Q2 as construction rebounds from adverse weather effects in Q1.
■ Canada	The BoC continues to judge that downside risks remain important to the outlook despite better growth and inflation readings. Hence, we maintain our 3Q 2015 call for the next rate hike.
■ Australia	The lower-than-expected Q1 inflation report removes any pressure on the RBA to toughen its rate guidance, despite the buoyant housing market and more signs that the economy is responding to the low level of interest rates.
■ Emerging Asia (ex China)	Our growth forecasts remain unchanged except for an upward revision in Korea following better 1Q numbers. India's growth outlook is contingent on the imminent election outcome, but we acknowledge growth risks from poor monsoons. Except for the Philippines, monetary policy will likely be on hold for most countries in the next few months as inflation is still relatively benign and current account deficits remain contained in both Indonesia and India.
■ CEEMEA	There are two broad stories to consider in CEEMEA. One is in central Europe (e.g. Poland, Hungary) where inflation remains low while activity data improves — a story similar to Europe as a whole. Yet in many other parts of CEEMEA, and EM more broadly, there is a worrying combination of historically-high inflation combined with very weak growth. In some cases this is due to financial crisis (Turkey) or political crisis (Russia, Ukraine) but the broad trend is there: while DM is enjoying accelerating growth and low inflation, many parts of EM are suffering the opposite.
■ Lat Am	The most interesting developments in Brazil have been on the political side, as the drop in the government's popularity suggests that the presidential election may have a tight result. In Mexico, while we see weaker-than-expected growth in 1Q14, we believe it was the consequence of transitory factors and, thus, we continue to expect real GDP to rise 3.3% this year. We expect the central banks of both Brazil and Mexico to remain on hold for the remainder of the year, although we acknowledge the risk of an additional 25bps hike in Brazil. Lastly, the economic situation remains unstable in both Argentina and Venezuela.

Source: Citi Research

Figure 3. Selected Countries — Industrial Production Forecasts (Pct.), 2013-15F

	2013	2014F	2015F
World	2.3%	4.0%	4.1%
United States	2.9	3.5	4.0
Japan	-0.6	4.5	1.4
Euro Area	-0.7	2.2	3.1
United Kingdom	-0.3	1.4	1.5
Canada	1.5	2.0	2.2
China	9.7	8.7	8.5
India	0.7	3.9	5.3
Korea	0.3	5.4	4.3
Brazil	1.2	1.0	2.0

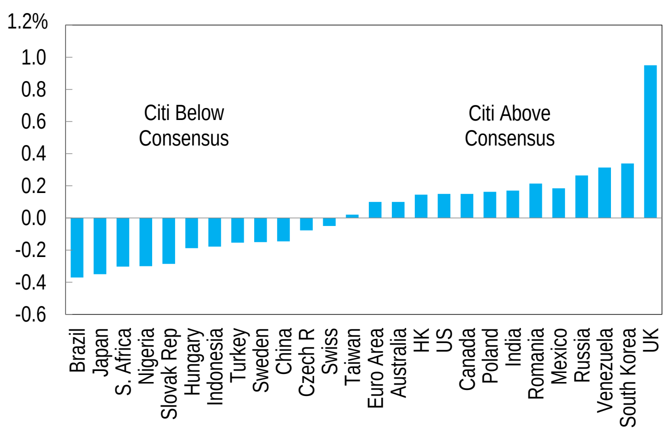
Source: Citi Research

Overview: Looking Ahead to ECB Easing

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

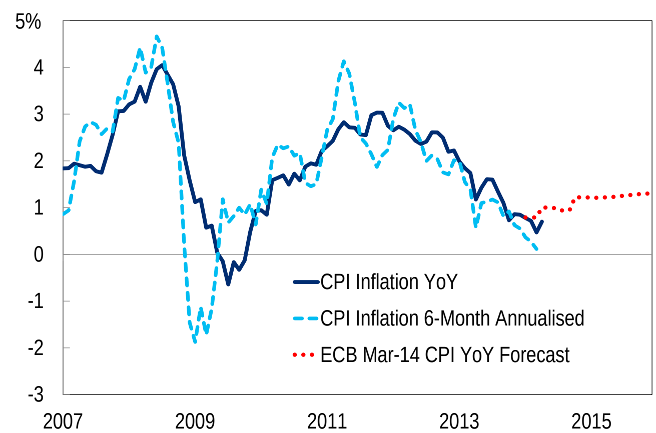
Our global growth forecasts are little changed this month, at 3.1% for 2014 and 3.5% for 2015 (at current exchange rates). Among the individual countries, we continue to expect US growth will rebound to 3%+ QoQ SAAR in Q2 and beyond as adverse weather effects in Q1 fade. Moreover, we are lifting our euro area growth forecasts by 0.2-0.3% per year for 2015-17. Among the major economies, the UK is our biggest above-consensus growth call, while our forecasts are a little above consensus for the US, euro area and India. Conversely, our forecasts are a bit below consensus for Brazil, Japan, South Africa and China. The country sections give more details. We highlight four main global themes this month: the prospect of further ECB easing, continued weakness in world trade, China-related uncertainties and a possible delay in BoJ easing.

Figure 4. Global — Citi GDP Growth Forecasts for 2014-15 Versus Consensus, April 2014



Sources: Consensus Economics and Citi Research

Figure 5. Euro Area — Inflation YoY and Six-Month Annualised Rate, 2007-14



Sources: Eurostat, ECB and Citi Research

Inflation is likely to continue to undershoot the ECB's target markedly in 2014-16…

We now expect the ECB will probably implement QE in addition to our previously-held view that they will cut rates[1]. Recent activity data suggest that euro area GDP growth picked up slightly in Q1, to 0.4% QoQ from 0.2% in Q4-13. Such a figure would be the best quarterly growth since Q2-2011. However, inflation continues to markedly undershoot the ECB's forecasts, with headline CPI inflation at 0.7% YoY in April. CPI inflation with constant tax rates was only 0.3% YoY in March, and the headline CPI has risen at an annualized rate of just 0.1% over the six months to March. To be sure, part of the recent inflation decline reflects weakness in food and energy prices, which may be transitory. Nevertheless, with ample slack[2] and the ongoing disinflationary impact of the euro's appreciation (up 6% trade-weighted since the start of 2013), headline CPI inflation is likely to stay below 1% YoY throughout 2014 and 2015, markedly undershooting the ECB's target of "close to but below 2%" for an extended period. Moreover, the euro area is potentially just one adverse shock away from actually tipping into deflation.

…and further downgrades to official inflation forecasts are likely to prompt the ECB to loosen further, first via lower rates and then probably by QE

Against this backdrop, the ECB seems to be moving towards further monetary easing. Draghi has laid the ground by getting the Governing Council's unanimous acquiescence that a range of unconventional tools are available — including asset purchases — if a sustained period of "low-flation" is likely. We expect that at the June meeting, the ECB will cut the refi rate by 15bp (leaving the refi rate at 10bp) and set a slightly negative deposit rate (-10bp), triggered by further downward

[1] See "The ECB And QE: "Whatever it Takes", Redux", Guillaume Menuet, 22 April 2014, Citi.
[2] See "The Rise of The Output Gap", Ebrahim Rahbari, *Euro Economics Weekly*, 4 April 2014, Citi.

revisions to its inflation forecasts published at that meeting[3]. There is a chance that this move could come as soon as the May meeting. Moreover, on balance, we believe that the low inflation outlook will prompt the ECB to implement a QE program in the second half of this year, with the timing perhaps linked to a further downgrade of official inflation forecasts at the September or December meetings (although the ECB could move in other months).

The experience of other countries suggests that asset purchases need to be substantial to have a material effect on growth and inflation prospects

The experience of other central banks suggests that asset purchases need to be substantial to achieve a meaningful effect on growth and inflation. BoE estimates suggest that the UK's first QE program (£200bn in 2009-10, 14% of annual GDP) raised the level of real GDP by 1½%-2% and lifted CPI inflation by ¾-1½ percentage points[4]. US estimates suggest that the Fed's LSAP program up to mid-2011 (which totaled \$1.8-1.9tn, roughly 12% of annual GDP), lifted real GDP by nearly 3% and had a peak effect on core PCE inflation of about 1.0 percentage point[5]. A recent press report[6] notes that internal ECB studies suggest that €1tn of asset purchases (roughly 10% of GDP) would lift CPI inflation by 0.2-0.8 percentage points, which is more or less consistent with the Fed and BoE studies.

We expect an initial ECB QE program of €1tn, roughly 10% of GDP, over a year…

Based on these estimates, and the prospect that inflation will average close to 1% YoY in 2014-17, we anticipate an initial LSAP program of €1tn, roughly 10% of GDP, to be completed over a year — with the caveat that the ECB could halt earlier if its forecasts suggest the inflation target will be met without further purchases. The ECB's QE (if it occurs) is likely to involve a mix of government bonds and private sector assets (especially securitized products) but given the limited size of private markets, the emphasis is likely to be on government bonds.

…with the main impact probably coming through asset purchases rather than the expansion of bank reserves

Such a program could in theory boost growth (and, indirectly, inflation) through a range of yield and liquidity channels, including lower government bond yields, lower private sector borrowing costs, greater scope for banks to deleverage through securitization, a boost to broad money, a weaker currency, rising asset prices, and other effects. We assume the program will not be sterilized (hence counting as QE rather than just LSAP), and the resultant expansion of excess reserves might help to lower money market rates and reinforce the ECB's commitment to "do whatever it takes". But the main channel is probably through asset purchases rather than the reserve channel. If the ECB were to sterilize its operations (i.e. do LSAP but not QE) then its impact may diminish, but probably only modestly.

The medium-term effects of previous QE/LSAP programs on exchange rates have been quite variable

At first glance, it might seem inevitable that ECB QE — i.e. lifting the supply of euros — is bound to weaken the euro. Indeed, countries implementing QE or LSAP usually have seen FX weakness in the few days around the announcement. In practice, however, the medium-term FX response to central bank asset purchase programs has been highly variable. The Japanese yen weakened by about 10% trade-weighted around the time of the April-2013 Q3 program[7]. However, this may reflect Japan-specific factors, in particular expectations that QE would be accompanied by adverse effects on growth from heavy fiscal restraint, and/or the assumption that the BoJ would intervene directly in FX markets to weaken the yen if needed. For the US and UK, on average the trade-weighted exchange rate

[3] Technically, the forecasts published at the June meeting will be the Eurosystem staff assessment.

[4] See "*The United Kingdom's quantitative easing policy: design, operation and impact*", BoE Quarterly Bulletin, September 2011. The BoE has produced a range of studies on this.

[5] See "*Have We Underestimated the Likelihood and Severity of Zero Lower Bound Events?*", Chung et al, Federal Reserve Bank of San Francisco, 2011.

[6] See Frankfurter Allgemeine, 4 April 2014.

[7] We take the period from 50 days before the announcement of QE (to allow for anticipatory flows) to 30 days after QE was announced. The depreciation was bigger over a wider timeframe.

depreciated by just 0.5% over the period from 50 days before major asset purchase announcements to 100 days after — i.e. essentially unchanged (with on average a slight depreciation for the USD and slight appreciation for the GBP[8]).

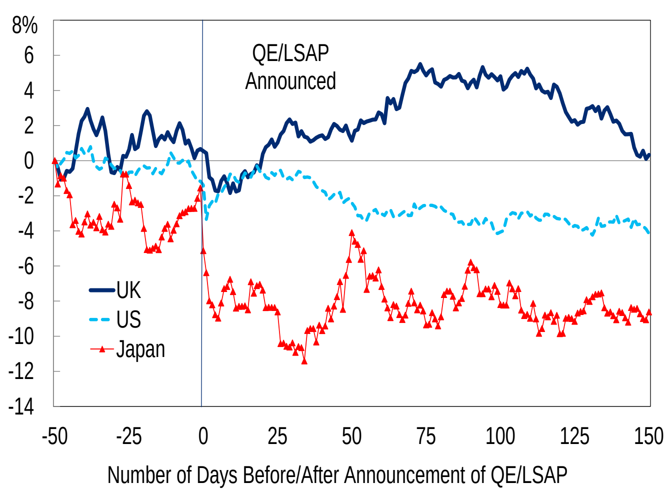
The euro has the cushion of a large structural ex ante balance of payments surplus

Moreover, the euro has the cushion of the large current account surplus and net capital inflows. In the 12 months ended February, the current account surplus hit a new record high of €248bn (2.6% of GDP), with a net inflow of portfolio investment of €138bn (1.5% of GDP) and net inflow of FDI investment of €8bn (0.1% of GDP). This implies a structural ex ante balance of payments surplus of 4-5% of GDP that has to be recycled through "other flows" — chiefly banking sector transactions. Unless an ECB QE program significantly changes this basic arithmetic of current account and capital flows, it will probably not significantly weaken the euro over time. Indeed, in the nearterm, an ECB QE program may actually increase external demand for euro area assets, through creating expectations of capital gains.

We suspect the liquidity from an ECB QE program would initially be reflected more in domestic asset price inflation than in currency weakness

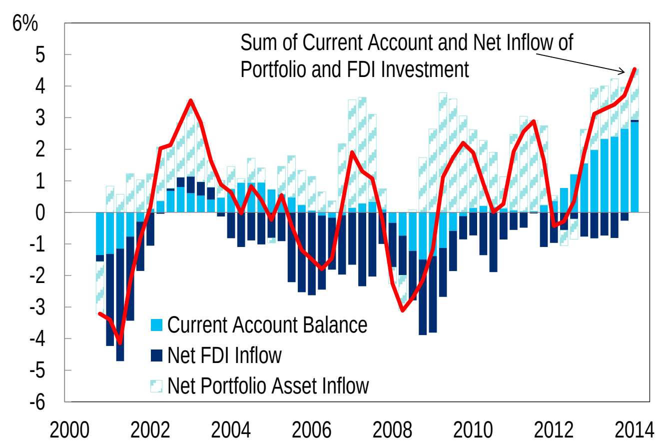
Hence, we suspect that the liquidity created by ECB QE would initially be reflected more in lower government bond yields (and lower periphery spreads), lower bank lending spreads and domestic asset price inflation rather than a significantly weaker euro. Over time, looser domestic financial conditions will probably lift nominal growth, although — with ample slack — we expect the initial boost to come through mainly as real GDP rather than inflation. We are raising our euro area growth forecasts for 2015-17 by 0.2-0.3% per year (cumulative upgrade of 0.7 percentage points), with an upgrade of 0.1-0.2 percentage point per year to the inflation outlook. Conversely, if the euro were to weaken sharply, then the initial direct effects on inflation (via increases in import prices) probably would be greater.

Figure 6. US, UK, Japan — Change in Trade-Weighted Exchange Rates Around Central Bank Announcements of QE or LSAP, 2009-13



Note: We show one QE episode in Japan, the average for two episodes in the UK, and the average for three episodes in the US. Sources: DataStream and Citi Research

Figure 7. Euro Area — Balance of Payment, 4-Quarter Sum as Pct of GDP, 2000-14



Note: Q1-2014 current account figure is based on January and February data. Current account measured including capital transfers. Sources: ECB and Citi Research

Export-oriented countries, especially EM, continue to face challenges from sluggish world trade growth and the erosion of EM export outperformance

Although many EM markets have been buoyed recently by renewed capital inflows, export-oriented EMs continue to face a difficult challenge from sluggish world trade growth and the erosion of EM export outperformance. During 1998-07, world trade growth (goods) averaged 6.6% YoY, twice world industrial production growth (3.3% YoY). Moreover, EM export growth outpaced world trade, with EM exports rising

[8] We date the asset purchase announcements as 18 March 2009, 3 November 2010 and 13 September 2012 for the US, and as 5 March 2009 and 6 October 2011 for the UK. There have of course been other announcements on asset purchases by both central banks.

9.6% YoY on average (ie roughly three times global IP growth) and exports by Asian EMs rising 12.2% YoY (ie nearly four times global IP growth). Even with faster global growth, world trade trends are still not returning to the pre-crisis norm.

World trade growth remains well below the precrisis norm…

- CPB data show global IP growth of 3.7% YoY in the three months ended February, clearly above the pre-crisis average (3.3%). However, world trade growth is just 3.4% YoY, marginally up from the 2013 pace (2.7% YoY) but well below the pre-crisis norm (6.6% YoY). The Beta on world trade (ie the ratio of world trade growth to world IP growth) is down from an average of 2.0 in 1998-07 to a little below 1 in 2012 and 2013, and staying a little below 1 in recent months.

…while the gap between EM and AE export growth has fallen markedly

- Moreover, the gap between EM and AE export growth has fallen markedly in the last couple of years and in the three months ended February, EM export volume growth (3.0% YoY) only just exceeded AE export growth (2.8% YoY). Even accepting that recent Chinese trade data may be distorted by the unwind of prior over-invoicing, the disparity in export growth between EMs and AEs has been low for a couple of years. So, as well as the drop in the world trade Beta, it also seems that the EM exports are no longer gaining market share significantly.

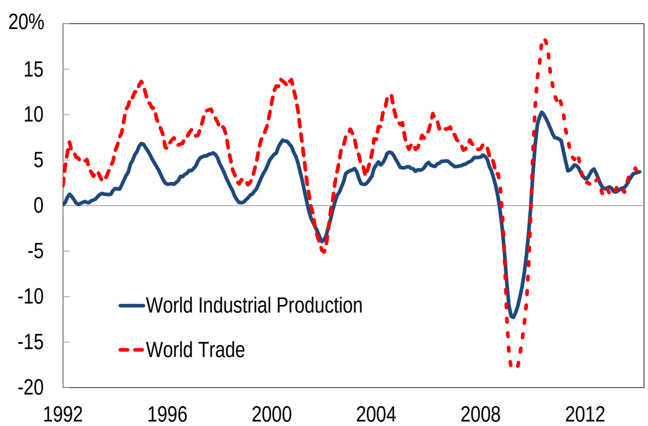
These broad trends are likely to persist, in our view…

We believe a range of factors accounts for these shifts, including the erosion of EM export cost-competitiveness through real exchange rate appreciation, lower US energy costs, reduced spending in AEs on import-intensive items such as capital goods and IT hardware, as well as the lack of further significant progress in cutting global tariffs in recent years[9]. We expect these broad trends will persist, hence keeping the ratio of world trade growth to output growth — and the gap between EM and AE export growth — well below the pre-crisis norms.

…posing further downside risks to growth prospects in many EM countries

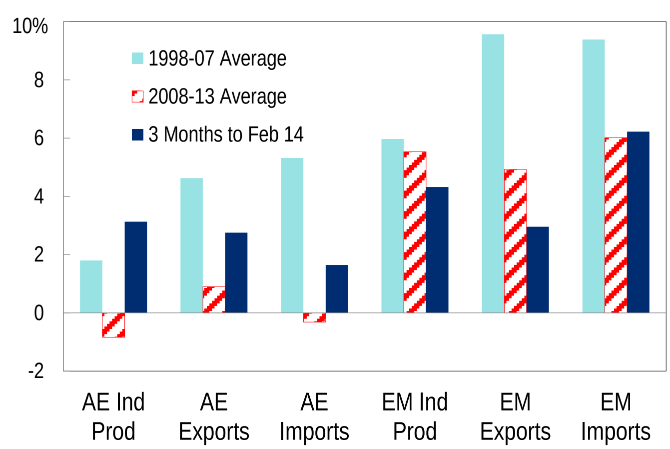
These trends pose a major challenge to export-oriented EMs. The assumption that under normal conditions, world trade grows about twice as fast as output, and that EM exports gain market share is, we believe, deeply embedded in assumptions of global economic prospects. If this no longer holds, then significant further downside may lie ahead for EM growth.

Figure 8. Global — Industrial Production and World Trade YoY (3-Month Averages), 1992-2014



Sources: CPB and Citi Research

Figure 9. AEs and EMs — Industrial Production and World Trade YoY By Region, (3-Month Averages), 1998-2014



Sources: CPB and Citi Research

[9] See "Why is World Trade So Sluggish?", *Prospects for 2014 and Beyond*, Willem Buiter et al, December 2013, Citi.

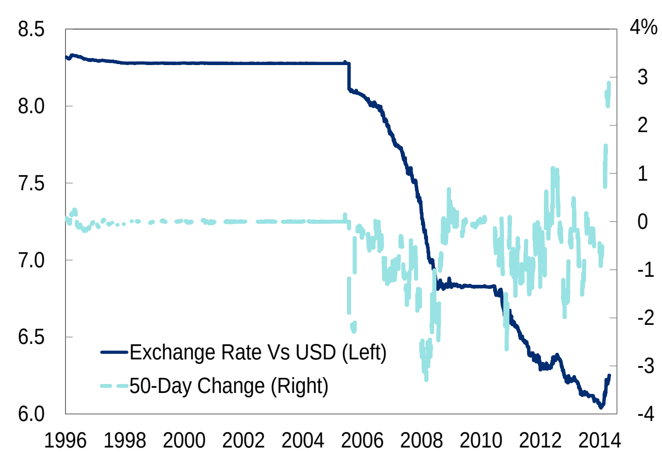
So far, China's economy has slowed modestly, but credit growth remains high

China's economy slowed less than we expected in Q1, with GDP growth of 7.4% YoY, but we still have major worries over the medium-term sustainability of China's credit-intensive and investment-intensive growth model. Total social financing (a broad credit measure) remains fairly strong, rising 16-16.5% YoY in March. But, even with this impulse, nominal GDP growth slowed to 7.9% YoY in Q1, the lowest since mid-2009. Our base case is that policy measures will provide a renewed impulse from credit and investment in coming months, preventing a sustained slowdown in real GDP growth below 7% YoY[10]. However, such a scenario would further inflate China's private debt burden, adding to worries about a sharper eventual slowdown if and when the authorities do seek to rein in credit growth.

If China's exchange rate continues to weaken significantly, this could have important implications for the global outlook

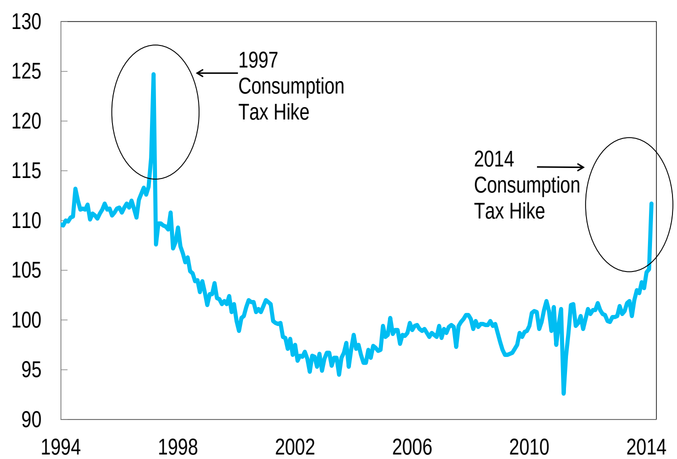
In this context, the recent weakness in China's exchange rate deserves close monitoring. China's FX rate is heavily managed and has weakened by about 3% versus the USD since mid-Feb, the greatest depreciation for many years. We assume the authorities are seeking to dent speculative inflows. In this case, depreciation is unlikely to extend much further. Conversely, if the authorities *do* allow significant further nearterm FX depreciation, then this might be a sign that they are seeking to cushion GDP growth against a much sharper nearterm deflation of the credit bubble. In turn, such a scenario might have significant effects on a range of other countries, worsening export competitiveness among Asian neighbours and providing a renewed disinflationary impulse for advanced economies.

Figure 10. China — Exchange Rate Versus USD, 1996-2014



Note: A lower exchange rate implies appreciation and vice versa.
Sources: DataStream and Citi Research

Figure 11. Japan — Retail Sales Index, 2010=100, 1994-2014



Sources: DataStream and Citi Research

We still expect BoJ loosening, but now believe it is likely to be delayed until the autumn

We do still expect the BoJ to loosen policy further, but it now seems likely that easing will be delayed until the autumn — whereas previously we expected it around midyear. The BoJ's continued optimism over growth prospects suggests that easing is unlikely until it is clear that the consumption tax hike has caused a lasting slowdown in growth, rather than just a temporary dip as pre-emptive "rush" demand in Q1 unwinds in Q2. The surge in retail sales (up 8.2% between December and March — the biggest gain since early 1997) increases the likelihood of a sharp drop in sales in Q2. But the same factor may also make the BoJ more willing to discount such weakness as temporary and wait to see how the economy progresses during Q2 and into Q3. Easing, we expect, will come via a mix of expanded asset purchases focused on JGBs and ETFs.

[10] See "China Macro Flash: Growth Fell in 1Q with Downside Risk for 2Q", Shuang Ding and Minggao Shen, 16 April 2014, Citi.

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

	Name	Office Number	Email Address	Responsibilities
NEW YORK	North America			
	Willem Buiter[3]	(1-212) 816-2363	willem.buiter@citi.com	Chief Economist
	William Lee[3]	(1-212) 816-2621	william.lee@citi.com	Global Economist, North America
	Peter D'Antonio[3]	(1-212) 816-9889	peter.dantonio@citi.com	U.S. Forecast
	Dana Peterson[3]	(1-212) 816-3549	dana.peterson@citi.com	U.S. Forecast and Canada
	Matt Dabrowski[3]	(1-212) 816-9891	matt.dabrowski@citi.com	Global Political Analysis
	Benjamin Mandel[3]	(1-212) 816-2735	benjamin.mandel@citi.com	Global Economics
	Joseph Seydl[3]	(1-212) 816-2473	joseph.seydl@citi.com	Global Economics
	Malcolm Spittler[3]	(1-212) 816-2461	malcolm.d.spittler@citi.com	U.S. Forecast
	Emerging Markets			
	Guillermo Mondino[3]	(1-212) 816-6499	guillermo.mondino@citi.com	Head, EM Economics and Strategy Research
	Jorge Pastrana[2]	(1-212) 816-5728	jorge.armando.pastranavillegas@citi.com	Chile, Caribbean and Central America
LONDON	Global			
	Tina Fordham[1]	(44-20) 7986-9860	tina.fordham@citi.com	Global Political Analysis
	Western Europe			
	Michael Saunders[1]	(44-20) 7986-3299	michael.saunders@citi.com	Head, Western Europe and U.K. Coverage
	Guillaume Menuet[1]	(44-20) 7986-1314	guillaume.menuet@citi.com	Euro Area (France, Belgium, Netherlands) and ECB
	Giada Giani[1]	(44-20) 7986-3281	giada.giani@citi.com	Euro Area (Italy,Spain, Greece, Portugal)
	Ebrahim Rahbari[1]	(44-20) 7986-6522	ebrahim.rahbari@citi.com	Euro Area (Germany) and Global Economics
	Tina Mortensen[1]	(44-20) 7986-3284	tina.mortensen@citi.com	Nordics
	Ann O'Kelly[1]	(44-20) 7986-3297	ann.okelly@citi.com	Europe
	Antonio Montilla[1]	(44-20) 7986-3282	antonio.montilla@citi.com	Global Economics and Europe
	Emerging Markets			
	David Lubin[1]	(44-20) 7986-3302	david.p.lubin@citi.com	Head, Emerging Markets and CEEMEA
	David Cowan[1]	(44-20) 7986-3285	david.cowan@citi.com	Africa
	Farouk Soussa[1]	(44-20) 7986-4356	farouk.soussa@citi.com	Gulf, Middle East, Levant
	Wilbur Maxino[1]	44-20) 7986-3303	wilbur.maxino@citi.com	Emerging Markets and CEEMEA
TOKYO	Kiichi Murashima[2]	(813) 6270-4980	kiichi.murashima@citi.com	Head, Japan
	Naoki Iizuka[2]	(813) 6270-4997	naoki.iizuka@citi.com	Japan
SYDNEY	Paul Brennan[15]	(612) 8225-4899	paul.brennan@citi.com	Head, Australia, New Zealand
	Josh Williamson[15]	(612) 8225-4904	josh.williamson@citi.com	Australia, New Zealand
BOGOTA	Munir Jalil[12]	(57) (1) 639-4195	munir.jalil@citi.com	Colombia, Peru and Venezuela
BUDAPEST	Eszter Gargyan[7]	(36) 1 374-5559	eszter.gargyan@citi.com	Hungary
HONG KONG	Johanna Chua[4]	(852) 2501-2357	johanna.chua@citi.com	Head, Emerging Asia, Sri Lanka, Vietnam
	Minggao Shen[4]	(852) 2501-2485	minggao.shen@citi.com	China
	Shuang Ding[4]	(852) 2501-2769	shuang.ding@citi.com	China
	Adrienne Lui[4]	(852) 2501-2753	adrienne.lui@citi.com	Hong Kong, Mongolia, Taiwan
ISTANBUL	Ilker Domac[6]	(90) 212 319-4623	ilker.domac@citi.com	Turkey, Romania, Balkans
	Gultekin Isiklar[6]	(90) 212 319-4915	gultekin.isiklar@citi.com	Turkey, Romania, Balkans
JAKARTA	Helmi Arman[21]	62-21-5290-8960	helmi.arman@citi.com	Indonesia
JOHANESBURG	Gina Schoeman[1]	(27) 11 944 0813	gina.schoeman@citi.com	South Africa
MANILA	Jun Trinidad[17]	(63) (2) 894-7270	jun.trinidad@citi.com	Philippines, Thailand
MEXICO CITY	Sergio Luna Martinez[4]	(52) (55) 2226-6799	sergio1.luna@banamex.com	Mexico
MOSCOW	Ivan Tchakarov[18]	(7) 495 643 1507	ivan.tchakarov@citi.com	Russia, Kazakhstan, Ukraine
MUMBAI	Rohini Malkani[8]	(91) 22-6175-9876	rohini.malkani@citi.com	India
	Anurag Jha[8]	(91) 22-6175-9877	anurag.jha@citi.com	India
PRAGUE	Jaromir Sindel[13]	(42) (02) 3306-1485	jaromir.sindel@citi.com	Czech Republic, Slovakia, Slovenia
SAO PAULO	Marcelo Kfoury[19]	(55) (11) 4009-3470	marcelo.kfoury@citi.com	Brazil
SEOUL	Jaechul Chang[16]	(82) 2 2077-4160	jaechul.chang@citi.com	Korea
SINGAPORE	Kit Wei Zheng[20]	(65) 6657-5079	wei.zheng.kit@citi.com	ASEAN, Singapore, Malaysia
	Adrian Thomas[20]	(65) 6657-1931	adrian.thomas@citi.com	Global Emerging Markets, Asia and CEEMEA
WARSAW	Piotr Kalisz[7]	(48) (22) 692-9633	piotr.kalisz@citi.com	Head, CEE and Poland
	Cezary Chrapek[7]	(48) (22) 692-9421	cezary.chrapek@citi.com	Poland

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

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Source: Citi Research.

Figure 13. Selected Countries — Economic Forecast Overview (Percent), 2013-2018F

	GDP Growth						CPI Inflation						Central Bank Policy Rates					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Global	2.5	3.1	3.5	3.7	3.6	3.4	2.6	2.9	3.1	4.2	4.2	3.4	2.14	2.37	2.50	2.90	3.37	3.59
Based on PPP weights	*3.0*	*3.4*	*3.9*	*4.1*	*4.1*	*3.9*	*3.1*	*3.3*	*3.6*	*4.9*	*5.0*	*3.9*	*2.71*	*3.01*	*3.21*	*3.58*	*3.98*	*4.00*
Industrial Countries	1.2	2.1	2.4	2.5	2.2	2.0	1.3	1.5	1.6	1.6	1.5	1.7	0.46	0.37	0.56	1.16	1.85	2.41
United States	1.9	2.6	3.2	3.2	2.7	2.2	1.1	1.4	1.8	2.2	2.3	2.2	0.25	0.25	0.50	1.65	3.00	3.75
Japan	1.5	0.9	1.0	1.2	1.2	1.0	0.4	3.0	1.6	1.6	0.7	1.0	0.10	0.10	0.10	0.10	0.10	0.30
Euro Area	-0.4	1.3	1.8	1.9	1.9	1.8	1.4	0.6	0.9	1.2	1.3	1.8	0.50	0.16	0.10	0.11	0.42	0.92
Canada	2.0	2.3	2.7	2.7	2.6	2.4	0.9	1.8	2.0	2.0	2.0	2.0	1.00	1.00	1.19	2.13	2.50	2.75
Australia	2.4	2.9	2.9	3.1	3.4	3.3	2.4	2.7	2.5	2.4	2.4	2.4	2.69	2.50	3.44	4.44	4.50	4.75
New Zealand	2.7	3.2	2.7	2.4	2.6	2.7	1.1	2.1	2.2	2.2	2.2	2.4	2.50	3.31	4.38	4.75	4.75	5.00
Germany	0.5	2.2	2.4	2.4	2.1	2.0	1.5	1.3	1.8	2.1	2.3	2.4						
France	0.3	1.0	1.5	1.8	2.0	1.9	1.0	0.8	1.3	1.4	1.4	1.5						
Italy	-1.8	0.6	1.1	1.0	1.1	0.8	1.3	0.3	-0.2	0.2	0.7	1.1						
Spain	-1.2	1.0	1.6	2.0	1.9	1.7	1.5	0.0	0.2	0.4	0.5	0.9						
Greece	-3.9	-0.8	1.2	1.6	1.5	1.6	-0.9	-1.6	-1.7	-1.0	-0.2	0.9						
Ireland	-0.3	1.8	3.1	2.8	2.9	2.9	0.4	0.8	1.0	1.1	1.6	1.7						
Portugal	-1.4	1.5	2.0	1.7	1.7	1.8	0.4	-0.5	-0.7	0.0	0.3	1.0						
Netherlands	-0.8	1.3	1.4	1.8	2.1	2.1	2.6	0.5	1.3	1.5	1.6	1.8						
Belgium	0.2	1.3	1.5	1.6	2.0	2.1	1.2	0.4	1.0	1.8	1.6	1.9						
Denmark	0.4	1.0	1.5	1.8	1.7	1.9	0.8	1.5	1.7	1.8	1.9	2.0	0.20	0.20	0.25	0.47	0.78	1.00
Norway	2.1	1.9	2.1	2.4	2.8	2.8	2.1	2.0	2.1	2.1	2.2	2.4	1.50	1.50	1.71	2.08	2.74	3.33
Sweden	1.5	2.6	2.7	2.9	2.9	2.7	0.0	0.1	1.3	2.2	2.3	2.0	0.99	0.63	0.75	1.42	2.18	2.80
Switzerland	2.0	2.2	2.0	2.2	2.0	2.0	-0.2	0.1	1.0	1.1	1.2	1.2	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	1.7	3.5	3.6	2.5	2.0	2.2	2.6	1.7	1.9	2.1	2.0	2.0	0.50	0.54	1.67	2.50	2.71	3.21
Emerging Markets	4.5	4.5	5.0	5.4	5.5	5.4	4.7	4.9	5.3	6.5	6.6	4.9	4.78	5.36	5.41	5.50	5.59	5.28
China	7.7	7.3	7.0	7.5	7.3	7.0	2.6	2.6	3.2	3.8	4.0	3.8	3.00	3.00	3.00	3.13	3.50	3.75
Taiwan	2.1	3.2	3.8	4.2	4.5	4.5	0.8	1.2	2.0	1.8	1.8	1.8	1.88	1.88	2.19	2.63	3.13	3.63
India	4.9	5.6	6.2	6.6	6.9	7.0	9.5	8.0	7.5	7.0	6.5	6.5	7.75	8.00	8.00	7.50	7.00	7.00
Indonesia	5.8	5.3	5.5	5.7	5.9	5.7	6.4	6.4	7.2	5.4	5.3	5.5	4.65	5.81	6.25	6.13	6.00	6.00
Korea	3.0	3.9	4.0	4.0	3.6	3.8	1.3	2.1	3.0	3.1	3.0	2.9	2.56	2.50	3.13	3.75	4.13	4.25
Czech Republic	-0.9	1.9	2.6	3.0	3.1	3.2	1.4	0.9	2.1	1.7	2.0	2.0	0.05	0.05	0.08	0.75	1.54	2.54
Hungary	1.1	2.3	1.7	1.6	1.7	2.0	1.7	0.7	2.9	3.0	2.9	2.2	4.38	2.58	3.79	4.00	4.00	4.00
Poland	1.6	3.4	3.6	3.6	3.5	3.2	0.9	1.1	2.7	2.7	2.5	2.5	2.95	2.50	3.15	4.15	4.32	4.00
Romania	3.5	3.0	3.4	3.7	3.7	3.7	4.0	2.1	3.5	2.6	2.5	2.5	4.69	3.50	4.50	5.00	5.00	5.00
Russia	1.3	1.0	2.3	2.5	2.5	2.6	6.8	6.4	5.5	5.3	5.1	4.8	5.50	6.92	6.08	5.15	4.83	4.56
Turkey	4.0	2.2	3.5	3.8	4.0	4.0	7.5	8.1	7.4	6.8	6.5	6.1	6.16	10.69	10.63	9.75	9.50	9.00
Nigeria	6.6	6.4	6.4	7.0	6.2	6.8	8.5	8.8	10.6	10.8	9.9	9.2	11.75	11.75	12.50	11.25	9.00	9.00
South Africa	1.9	2.3	2.9	3.3	4.0	4.1	5.8	6.5	5.8	5.5	5.9	5.9	5.00	5.88	6.83	8.25	8.50	8.50
Argentina	4.9	1.0	1.5	-2.0	3.5	3.0	10.6	NA	30.5	50.0	30.0	20.0	17.16	29.02	34.41	37.00	37.00	0.00
Brazil	2.3	1.3	1.8	2.5	3.0	3.0	6.2	6.5	6.3	5.9	5.5	5.5	8.44	10.92	12.33	12.00	11.50	11.50
Mexico	1.1	3.3	4.0	4.4	4.5	4.6	3.8	4.1	3.7	3.6	3.6	3.6	3.94	3.50	3.75	4.90	5.17	6.21
Venezuela	1.3	-1.0	1.9	1.9	1.9	1.9	38.5	62.5	82.1	60.0	60.0	60.0	14.50	14.50	14.50	14.80	14.80	14.80

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

Figure 14. Selected Countries — Economic Forecast Overview (Percent), 2013-2018F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2013	2014F	2015F	2016F	2017F	2018F	2013F	2014F	2015F	2016F	2017F	2018F	2013F	2014F	2015F	2016F	2017F	2018F
Global	0.7	0.7	0.6	0.2	0.0	-0.1	-4.1	-3.7	-3.2	-2.9	-2.7	-2.3	88	86	86	85	84	83
Based on PPP weights	*0.5*	*0.5*	*0.3*	*0.0*	*-0.2*	*-0.3*	*-4.0*	*-3.7*	*-3.3*	*-3.0*	*-2.9*	*-2.4*	*79*	*80*	*80*	*79*	*78*	*76*
Industrial Countries	-0.2	0.0	0.0	-0.1	-0.1	0.0	-5.5	-4.6	-3.7	-3.3	-3.0	-2.8	114	112	112	111	111	110
United States	-2.3	-2.0	-1.5	-1.8	-1.7	-1.4	-7.3	-6.4	-5.6	-5.6	-5.4	-5.4	105	106	106	106	106	106
Japan	0.7	-0.2	-0.3	0.0	0.2	0.2	-9.8	-8.0	-6.2	-5.8	-5.4	-5.0	241	243	247	248	251	254
Euro Area	2.4	2.5	2.3	2.2	1.9	1.8	-3.1	-2.6	-2.1	-1.6	-1.2	-0.9	93	95	94	93	92	90
Canada	-3.2	-3.2	-2.8	-2.6	-2.6	-2.7	-0.9	-0.1	0.3	0.4	0.4	0.4	96	95	93	90	87	85
Australia	-2.9	-2.5	-2.4	-2.4	-2.4	-2.1	-1.2	-3.0	-2.1	-1.4	-1.0	0.0	30	32	34	33	33	34
New Zealand	-3.4	-4.2	-5.4	-5.0	-5.4	-6.6	-2.9	-1.6	-0.4	0.5	1.2	2.2	40	39	36	37	37	34
Germany	7.4	6.7	5.5	4.4	3.9	3.8	-0.1	0.0	0.0	0.0	0.0	0.0	80	78	75	72	69	67
France	-1.4	-0.6	0.1	0.5	0.3	0.0	-4.2	-3.9	-3.2	-2.5	-1.5	-0.9	94	97	97	97	95	93
Italy	1.0	1.3	1.2	1.6	1.8	2.0	-3.0	-2.9	-2.7	-2.0	-1.4	-1.0	133	137	138	138	137	136
Spain	0.8	0.8	0.7	0.6	0.5	0.6	-7.1	-5.8	-4.5	-3.5	-2.9	-2.7	94	99	102	103	104	104
Greece	0.8	1.9	2.4	2.4	2.3	2.3	-12.7	-2.6	-2.6	-2.1	-1.7	-1.4	175	182	185	184	183	179
Ireland	6.6	8.7	9.0	8.3	7.6	6.8	-7.2	-5.5	-3.0	-2.3	-1.6	-0.9	124	122	121	118	114	110
Portugal	0.4	2.2	2.5	2.6	2.7	2.7	-4.9	-3.8	-2.8	-2.3	-1.9	-1.5	129	135	132	130	129	127
Netherlands	10.3	10.1	9.9	9.5	9.0	8.6	-2.5	-3.0	-1.7	-0.9	0.4	1.7	74	75	74	72	70	65
Belgium	-1.6	1.1	1.7	1.9	1.7	1.3	-2.6	-2.3	-1.9	-0.9	0.2	1.3	102	102	102	99	96	91
Denmark	7.3	6.8	5.8	5.5	5.7	5.6	-1.2	-1.3	-2.4	-1.4	-1.0	-0.9	46	46	47	47	46	45
Norway	10.6	11.2	11.5	11.9	12.2	12.6	11.4	11.9	11.0	10.0	10.0	9.0	NA	NA	NA	NA	NA	NA
Sweden	6.2	5.9	5.6	5.6	5.4	5.3	-1.4	-1.6	-1.0	-0.3	0.5	1.2	39	39	39	37	35	32
Switzerland	12.0	12.2	11.3	11.8	10.5	10.5	0.2	0.7	0.9	1.3	1.3	0.9	48	46	45	44	43	44
United Kingdom	-4.4	-3.5	-3.6	-3.6	-3.2	-2.9	-7.1	-5.6	-3.8	-1.7	-0.9	-0.1	94	97	96	95	93	90
Emerging Markets	2.0	1.9	1.3	0.6	0.1	-0.1	-2.0	-2.3	-2.4	-2.2	-2.3	-1.5	45	45	45	45	44	44
China	2.0	2.0	1.5	0.8	0.5	0.5	-1.9	-2.1	-2.0	-2.0	-2.0	-2.0	54	54	53	52	51	50
Taiwan	11.7	11.0	10.2	8.0	8.0	8.0	-1.4	-1.4	-0.8	-0.6	-0.6	-0.6	40	40	39	39	39	38
India	-2.0	-2.3	-2.5	-2.2	-2.3	-2.3	-6.9	-6.7	-6.5	-6.2	-5.9	-5.5	70	68	66	65	63	61
Indonesia	-3.3	-2.4	-2.1	-1.7	-1.5	-1.6	-2.2	-2.3	-1.7	-1.9	-2.0	-2.0	24	26	25	25	25	25
Korea	6.1	3.8	3.0	2.3	1.6	0.7	1.0	0.9	1.5	1.7	1.9	1.7	33	31	29	27	26	25
Czech Republic	-1.4	0.2	0.8	1.0	1.0	-0.3	-1.5	-2.0	-2.5	-2.4	-2.2	-2.0	46	45	45	46	46	45
Hungary	2.9	3.1	2.2	2.0	1.7	0.8	-2.3	-2.9	-2.9	-2.9	-3.0	-3.0	79	81	80	79	78	76
Poland	-1.3	-2.5	-3.7	-4.5	-4.6	-4.3	-4.3	5.2	-2.7	-2.6	-2.6	-2.6	54	48	47	46	46	45
Romania	-1.1	-2.5	-4.2	-4.5	-4.5	-4.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	NA	NA	NA	NA	NA	NA
Russia	1.5	2.1	1.6	0.3	-0.7	-1.7	-2.1	-4.4	-4.9	-1.0	-1.0	-1.0	7	10	13	13	12	12
Turkey	-7.9	-5.2	-5.3	-5.0	-4.9	-4.4	-1.2	-2.8	-3.2	-3.3	-3.3	-3.3	39	38	37	36	35	33
Nigeria	3.8	2.4	1.4	1.1	1.1	0.6	-1.4	-1.7	-1.6	-1.5	-1.4	-1.3	NA	NA	NA	NA	NA	NA
South Africa	-5.8	-4.9	-4.2	-3.4	-3.1	-2.7	-4.3	-4.2	-4.2	-3.7	-3.0	-2.0	NA	NA	NA	NA	NA	NA
Argentina	-0.6	-0.5	-0.4	3.0	1.0	1.0	-2.4	-3.1	-2.3	0.0	-0.5	-1.0	40	48	56	54	53	52
Brazil	-3.7	-4.1	-4.1	-4.1	-4.1	-4.1	-3.3	-3.9	-3.4	-3.3	-3.2	-3.2	57	57	58	58	58	58
Mexico	-1.8	-2.1	-1.8	-1.4	-1.5	-1.5	-2.4	-3.5	-2.5	-2.0	-2.0	-2.0	38	38	38	37	37	37
Venezuela	3.3	4.1	5.1	3.0	3.0	3.0	-11.9	-11.2	-10.3	-12.0	-12.1	-11.5	42	41	40	41	42	43

Note: Fiscal deficit and debt figures for all countries are general government debt and deficits. For Spain, fiscal deficits include the effect of financial support for banks. For Greece, we assume further reductions in the cost of official loans. Source: Citi Research

Figure 15. Selected Countries — Changes in Economic Forecasts (Percentage Points), 2013-2015F

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013F	2014F	2015F
Global			0.1			0.1				-0.4	-0.7	-0.7
Based on PPP weights		*-0.1*	*0.1*			*0.1*				*-0.3*	*-0.6*	*-0.6*
Industrial Countries					-0.1		-0.1			-0.7	-1.1	-1.0
United States		-0.2	0.1			0.1				-1.6	-2.5	-2.6
Japan					0.1		0.1	-0.6	-0.6			
Euro Area			0.2		-0.1	0.2	0.1	0.2	0.2	-0.2	-0.2	-0.1
Canada					-0.1	0.2		-0.7	-0.4			
Australia			-0.1		-0.4			0.2	0.1			
New Zealand												
Germany			0.1		-0.1			0.4	0.5	-0.1		
France			0.3		-0.3	0.1	0.2	0.3	0.4	-0.1	-0.5	-0.4
Italy			0.2			0.2	0.2	0.2				-0.2
Spain		0.1	0.4			0.1	0.1	-0.1	-0.2	-0.1	0.1	0.2
Greece		0.1	0.4		0.3	0.5	0.1	0.1	0.1	-9.0	0.9	-0.2
Ireland		0.5	0.2					-0.5	-0.6		0.2	0.3
Portugal			0.3	-0.1	0.2	0.1				0.6	0.3	0.6
Netherlands		0.1	0.1		-0.1	0.1	-0.1		0.1	1.4	0.4	0.8
Belgium			0.1	0.1	-0.3		0.1	1.2	1.1	0.4	0.2	-0.6
Denmark												
Norway												
Sweden					-0.1							
Switzerland		0.5	0.1		0.2	0.1		1.2	1.3		0.2	0.2
United Kingdom	-0.1				0.1	0.1	-0.9	-0.7	-0.4		-0.2	-0.2
Emerging Markets					0.0	0.1	0.0	0.1		0.1		-0.1
China												
Taiwan					-0.1	0.1				0.1		
India				-0.1	-0.3							
Indonesia						1.5		0.1			-0.1	
Korea		0.2	0.1				0.7	0.1	-0.1	0.2		
Czech Republic			0.1		0.1	0.1		-0.9		0.9	0.9	0.4
Hungary		0.2	0.2				0.8	0.5	0.2	0.3		
Poland					0.1		0.2		-0.1	-0.1	-0.5	-0.4
Romania					-0.3	0.1						
Russia					0.4	0.3	0.0	0.3	0.4	-0.1		
Turkey		-0.1			0.4		-0.1					
Nigeria	0.1	-0.2					-3.1	-2.0	-1.2	1.2	1.2	1.3
South Africa		-0.1	0.1			-0.3		0.2	-0.3			
Argentina												
Brazil					0.4	0.4		-0.1			-0.2	-0.6
Mexico					-0.1	0.1						
Venezuela	-0.2							0.1			-0.1	

Source: Citi Research

Figure 16. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent), 2013-2018F

	10-Year Yields						Exchange Rates Versus U.S. Dollar*						Exchange Rate Versus Euro					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Industrial Countries																		
United States	2.35	3.05	3.50	3.75	4.10	4.25	NA	NA	NA	NA	NA	NA	1.33	1.37	1.37	1.41	1.41	1.41
Japan	0.71	0.68	1.06	1.25	1.50	1.50	98	105	111	115	115	115	130	144	152	162	162	162
Euro Area	1.60	1.63	1.75	2.00	2.25	2.50	1.33	1.37	1.37	1.41	1.41	1.41	NA	NA	NA	NA	NA	NA
Canada	2.26	2.74	3.36	3.60	3.90	3.90	1.03	1.13	1.15	1.14	1.13	1.11	1.37	1.55	1.58	1.61	1.59	1.57
Australia	3.65	4.45	4.84	5.50	5.50	5.80	0.97	0.94	0.95	0.94	0.94	0.94	1.37	1.46	1.45	1.50	1.50	1.50
New Zealand	3.98	5.04	5.70	5.65	5.80	6.00	0.82	0.87	0.86	0.84	0.81	0.77	1.62	1.59	1.61	1.68	1.75	1.82
Germany	1.60	1.63	1.75	2.00	2.25	2.50												
France	2.12	2.14	2.15	2.40	2.65	2.90												
Italy	4.23	3.13	2.75	2.85	2.95	3.10												
Spain	4.48	3.19	2.95	3.05	3.15	3.30												
Netherlands	1.89	1.90	2.00	2.25	2.50	2.75												
Belgium	2.33	2.23	2.25	2.50	2.75	3.00												
Denmark	1.73	1.70	1.85	2.15	2.50	2.75	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.57	2.84	2.74	2.85	3.10	3.35	5.88	5.93	5.72	5.41	5.25	5.09	7.81	8.15	7.87	7.63	7.40	7.17
Sweden	2.10	2.27	2.45	2.60	2.75	3.00	6.51	6.63	6.63	6.32	6.11	5.90	8.65	9.11	9.11	8.91	8.61	8.32
Switzerland	0.82	0.95	1.06	1.08	1.28	1.48	0.93	0.90	0.92	0.92	0.92	0.92	1.23	1.23	1.27	1.29	1.29	1.29
United Kingdom	2.34	3.05	3.60	3.75	3.90	4.05	1.56	1.70	1.72	1.75	1.77	1.79	0.85	0.81	0.80	0.81	0.80	0.79
Emerging Markets																		
China	3.68	4.41	4.33	4.45	4.83	5.08	6.15	6.19	6.04	6.01	6.03	6.05	8.17	8.51	8.31	8.47	8.50	8.53
Taiwan	1.46	1.60	1.89	2.19	2.49	2.79	29.68	30.38	30.02	29.63	29.10	28.57	39.43	41.76	41.26	41.76	41.03	40.28
India	8.25	8.50	8.50	8.00	7.50	7.50	58.57	61.54	63.56	62.02	58.99	55.92	77.80	84.59	87.34	87.39	83.18	78.85
Indonesia	6.97	8.34	8.75	8.75	8.75	8.75	10449	11700	11967	11555	10798	10031	13881	16083	16444	16283	15225	14144
Korea	3.00	3.46	4.03	4.30	4.55	4.75	1095	1054	1056	1043	1022	1000	1454	1449	1450	1470	1441	1410
Czech Republic	2.09	2.04	2.27	2.61	2.97	3.20	19.6	20.0	19.8	18.6	18.1	17.6	26.0	27.5	27.2	26.3	25.5	24.8
Hungary	5.92	5.90	6.18	6.20	6.20	6.20	223	229	234	231	232	233	297	315	322	325	327	329
Poland	4.05	4.28	4.70	5.07	4.95	0.48	3.16	3.08	3.03	2.83	2.81	2.78	4.20	4.23	4.17	3.99	3.96	3.92
Romania	NA	NA	NA	NA	NA	NA	3.33	3.26	3.20	3.11	3.06	3.00	4.42	4.48	4.39	4.38	4.32	4.24
Russia	NA	NA	NA	NA	NA	NA	31.9	37.4	39.0	38.0	38.0	38.0	42.3	51.4	53.6	53.6	53.6	53.6
Turkey	NA	NA	NA	NA	NA	NA	1.91	2.22	2.39	2.48	2.43	2.38	2.53	3.06	3.28	3.50	3.43	3.36
Nigeria	NA	NA	NA	NA	NA	NA	159	164	169	171	175	180	212	226	232	241	247	254
South Africa	NA	NA	NA	NA	NA	NA	9.65	10.89	11.02	10.77	10.67	10.57	12.82	14.96	15.15	15.18	15.04	14.90
Argentina	NA	NA	NA	NA	NA	NA	5.45	8.89	11.81	18.62	26.06	30.23	7.24	12.21	16.23	26.24	36.74	42.62
Brazil	9.98	12.71	13.66	13.08	12.25	12.25	2.16	2.35	2.57	2.69	2.80	2.92	2.87	3.23	3.53	3.78	3.95	4.12
Mexico	5.67	6.63	7.60	7.66	7.65	7.65	12.8	13.1	12.9	12.7	12.5	12.4	17.0	18.1	17.8	17.8	17.7	17.5
Venezuela	10.81	14.46	15.44	15.50	15.50	15.50	5.99	10.58	19.80	31.28	49.43	78.10	7.96	14.54	27.21	44.08	69.69	110.12

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

Figure 17. Short Rates (End of Period), as of 30 April 2014 (Percent)

	Current	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Euro Area	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50
Australia	2.50	2.50	2.50	2.50	2.75	3.25	3.75	4.00
New Zealand	3.00	3.25	3.50	3.75	4.00	4.25	4.50	4.75
Denmark	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Norway	1.50	1.50	1.50	1.50	1.50	1.75	1.75	2.00
Sweden	0.75	0.75	0.50	0.50	0.50	0.75	0.75	1.00
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.75	1.25	1.50	2.00	2.50
China	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00

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

Figure 18. 10-Year Yield Forecasts (Period Average), as of 30 April 2014 (Percent)

	Current	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15
United States	2.70	2.85	3.05	3.25	3.40	3.45	3.50	3.55
Japan	0.61	0.55	0.70	0.85	0.95	1.05	1.15	1.10
Euro Area (Germany)	1.50	1.60	1.60	1.60	1.70	1.70	1.80	1.80
Canada	2.44	2.60	2.85	3.05	3.30	3.35	3.35	3.45
Australia	3.95	4.40	4.50	4.60	4.70	4.75	4.95	4.95
New Zealand	4.40	4.90	5.10	5.40	5.50	5.60	5.80	5.90
Denmark	1.55	1.65	1.67	1.70	1.80	1.80	1.90	1.90
Norway	2.80	2.90	2.80	2.75	2.80	2.70	2.75	2.70
Sweden	1.96	2.25	2.25	2.30	2.45	2.40	2.50	2.45
Switzerland	0.84	0.95	0.95	0.95	1.02	1.02	1.10	1.10
United Kingdom	2.69	2.85	3.20	3.30	3.50	3.55	3.65	3.70

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

Figure 19. 10-Year Yield Spreads (Period Average), as of 30 April 2014

	Spread vs. US$						Spread vs. Germany					
	Current	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	Current	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15
United States	NA	NA	NA	NA	NA	NA	120	127	147	168	173	178
Japan	-208	-232	-237	-243	-248	-243	-88	-105	-90	-75	-75	-65
Euro Area	-120	-127	-147	-168	-173	-178	NA	NA	NA	NA	NA	NA
Canada	-26	-25	-20	-20	-10	-10	94	102	127	147	163	168
Australia	125	158	148	138	133	133	245	285	295	305	306	311
New Zealand	171	209	209	220	215	220	291	336	357	387	388	398
France	-70	-77	-97	-128	-133	-138	50	50	50	40	40	40
Italy	42	33	-7	-68	-73	-78	162	160	140	100	100	100
Spain	37	38	3	-48	-53	-58	157	165	150	120	120	120
Netherlands	-86	-102	-122	-143	-148	-153	34	25	25	25	25	25
Belgium	-57	-67	-87	-118	-123	-128	63	60	60	50	50	50
Austria	-96	-102	-122	-153	-158	-163	24	25	25	15	15	15
Finland	-90	-97	-117	-143	-148	-153	30	30	30	25	25	25
Ireland	14	13	-27	-88	-93	-98	134	140	120	80	80	80
Portugal	101	83	43	-18	-23	-28	221	210	190	150	150	150
Denmark	-115	-120	-137	-158	-163	-168	5	5	7	10	10	10
Norway	10	-7	-32	-58	-73	-83	131	130	120	115	110	100
Sweden	-73	-62	-77	-93	-103	-108	47	65	65	70	75	70
Switzerland	-186	-192	-212	-233	-241	-246	-66	-65	-65	-65	-68	-68
United Kingdom	-1	0	15	5	10	10	119	127	163	173	183	188

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

Figure 20. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as 30 April 2014

Country	Current Rate (%)	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Total Cumulative Rate Moves Expected
Brazil	11.00	0	0	0	100	50	150
Hungary	2.50	0	0	25	75	50	150
Colombia	3.25	25	50	25	25	0	125
South Africa	5.50	25	50	0	0	25	100
Philippines	3.50	0	25	25	25	25	100
Indonesia	5.75	0	0	25	25	0	50
Korea	2.50	0	0	0	25	25	50
Thailand	2.00	0	0	0	25	25	50
Poland	2.50	0	0	0	50	0	50
Peru	4.00	0	0	0	50	0	50
Turkey	10.05	-5	100	50	-50	-50	45
Mexico	3.50	0	0	0	0	25	25
Israel	0.75	-25	0	75	-25	0	25
India	8.00	0	0	0	0	0	0
China	3.00	0	0	0	0	0	0
Chile	4.00	-25	-25	0	0	25	-25
Russia	7.50	0	-50	0	-50	-50	-150

Note: For Turkey we use the average funding rate of the CBT instead of the 1-week repo rate. Source: Citi Research

Figure 21. Foreign Exchange Forecasts (End of Period), as of 30 April 2014

	vs. USD							vs. EUR						
	Current	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Current	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15
United States	NA	NA	NA	NA	NA	NA	NA	1.38	1.40	1.37	1.35	1.35	1.37	1.38
Japan	102	104	105	107	108	110	111	141	145	144	144	147	150	154
Euro Area	1.38	1.40	1.37	1.35	1.35	1.37	1.38	NA	NA	NA	NA	NA	NA	NA
Canada	1.10	1.12	1.14	1.15	1.15	1.15	1.15	1.52	1.57	1.56	1.55	1.56	1.57	1.59
Australia	0.93	0.94	0.95	0.95	0.95	0.95	0.94	1.49	1.48	1.45	1.42	1.43	1.44	1.46
New Zealand	0.86	0.87	0.86	0.86	0.86	0.86	0.85	1.61	1.61	1.59	1.57	1.58	1.60	1.62
Norway	5.99	5.88	5.91	5.94	5.87	5.77	5.68	8.29	8.21	8.12	8.03	7.96	7.90	7.84
Sweden	6.57	6.56	6.68	6.80	6.77	6.68	6.58	9.09	9.16	9.18	9.19	9.17	9.13	9.09
Switzerland	0.88	0.88	0.90	0.92	0.93	0.92	0.92	1.22	1.23	1.24	1.25	1.26	1.26	1.27
United Kingdom	1.68	1.71	1.71	1.70	1.71	1.72	1.72	0.82	0.82	0.80	0.79	0.79	0.80	0.80
China	6.25	6.27	6.19	6.10	6.07	6.05	6.04	8.6	8.7	8.5	8.2	8.2	8.3	8.3
India	60.6	60.6	62.1	63.6	63.9	63.7	63.5	83.9	84.6	85.3	85.9	86.5	87.1	87.6
Korea	1041	1043	1050	1058	1059	1057	1055	1441	1456	1443	1430	1434	1445	1456
Poland	3.04	3.02	3.10	3.17	3.14	3.07	3.00	4.20	4.21	4.25	4.29	4.26	4.20	4.14
Russia	36.0	36.9	38.2	39.5	39.6	39.2	38.8	49.8	51.5	52.4	53.3	53.6	53.6	53.6
South Africa	10.65	10.86	11.01	11.16	11.14	11.06	10.98	14.73	15.16	15.12	15.08	15.10	15.13	15.16
Turkey	2.13	2.21	2.25	2.29	2.33	2.37	2.41	2.95	3.09	3.09	3.09	3.15	3.24	3.33
Brazil	2.23	2.29	2.38	2.47	2.52	2.55	2.58	3.08	3.19	3.27	3.34	3.42	3.49	3.56
Mexico	13.1	13.2	13.2	13.1	13.0	13.0	12.9	18.2	18.5	18.1	17.7	17.7	17.7	17.8

Source: Citi Research

Figure 22. Foreign Exchange Forecasts (End of Period), as of 30 April 2014

	vs. JPY						
	Current	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15
United States	102	104	105	107	108	110	111
Japan	NA	NA	NA	NA	NA	NA	NA
Euro Area	141	145	144	144	147	150	154
Canada	93	92	93	93	94	95	97
Australia	95	98	99	101	103	104	105
New Zealand	87.6	90.0	90.9	91.8	92.8	94.0	95.2
Norway	17.0	17.6	17.8	18.0	18.4	19.0	19.6
Sweden	15.5	15.8	15.7	15.7	16.0	16.4	16.9
Switzerland	116	117	116	115	117	119	121
United Kingdom	172	177	179	182	185	188	192
China	16	17	17	17	18	18	18
India	1.68	1.71	1.69	1.68	1.69	1.72	1.75
Korea	10.21	10.07	10.00	9.93	9.79	9.63	9.47
Poland	33.6	34.3	33.9	33.6	34.4	35.8	37.2
Russia	2.8	2.8	2.8	2.7	2.7	2.8	2.9
South Africa	9.6	9.5	9.5	9.6	9.7	9.9	10.1
Turkey	47.8	46.8	46.7	46.6	46.4	46.3	46.2
Brazil	45.8	45.3	44.1	43.1	42.9	43.0	43.1
Mexico	7.8	7.8	8.0	8.1	8.3	8.5	8.6

Source: Citi Research

Country Commentary

United States

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

Harsh winter weather dampened growth in the first quarter, with much of the pullback in discretionary consumer spending. But we expect this weakness to be followed by a burst of growth in the spring and summer. In fact, some demand and production indicators already have bounced back and are setting up for solid growth in the current quarter. The rebound in growth should continue to drive down the unemployment rate toward 6% this year. The economy has key supports from ample slack and a strong financial tailwind. The Fed continues to shift policy accommodation away from quantitative easing and toward anchoring forward rates. The Fed has been cutting asset purchases by $10 billion per meeting, setting the bar extremely high for changing that pace of taper. Also, the Committee ended its reliance on quantitative forward guidance. Chairman Yellen has indicated a desire to guide policy by feedback rules that are conditional on economic developments.

The Fed may revise its principles for exiting zero policy rates in the next few meetings, because the 2011 plan has become obsolete. We continue to expect preparations for rate hikes in the spring of 2015, with modest tightening beginning in the summer. We see two-way risks here: Continued low inflation could delay tightening, while a faster recovery and wage gains could speed up exit. The Fed has emphasized that the commitment to the current low policy rate is contingent on inflation, which has been well below the Fed's medium-term goal of 2%. Tradable goods prices have actually declined in the past year, reflecting the global slowdown. Inflation is likely to edge up over time, underpinned by domestic demand growth, tightening labor markets and an eventual pickup in global growth.

Figure 23. United States — Economic Forecasts, 2013-2015F

					2013	2014				2015		
		2013	2014F	2015F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
GDP	SAAR				2.6%	0.9%	3.2%	3.8%	3.1%	3.2%	2.8%	3.2%
	YoY	1.9%	2.6%	3.2%	2.6	2.5	2.7	2.6	2.7	3.3	3.2	3.1
Domestic Demand	SAAR				1.6	1.8	3.5	3.6	3.0	3.0	2.9	3.0
	YoY	1.6	2.5	3.1	1.6	1.9	2.3	2.6	3.0	3.3	3.1	3.0
Consumption	SAAR				3.3	1.9	3.5	3.5	3.0	3.0	3.0	3.1
	YoY	2.0	2.7	3.1	2.3	2.2	2.7	3.0	3.0	3.2	3.1	3.0
Business Investment	SAAR				5.7	1.3	5.8	6.8	5.5	4.9	4.2	4.4
	YoY	2.7	4.6	5.1	2.6	4.1	4.4	4.9	4.8	5.8	5.4	4.8
Housing Investment	SAAR				-7.9	0.0	9.3	13.4	10.6	11.2	11.2	12.2
	YoY	12.2	4.5	11.6	6.9	3.8	2.7	3.4	8.2	11.1	11.6	11.3
Government	SAAR				-5.2	1.8	1.0	-0.4	0.0	0.1	0.1	0.0
	YoY	-2.2	-0.4	0.0	-2.4	-0.9	-0.6	-0.8	0.6	0.2	-0.1	0.0
Exports	SAAR				9.5	-4.6	5.4	5.7	4.7	4.9	5.0	5.5
	YoY	2.7	3.5	5.1	4.9	4.0	3.4	3.9	2.7	5.2	5.1	5.0
Imports	SAAR				1.5	-0.6	3.7	3.6	4.6	5.2	5.3	5.1
	YoY	1.4	2.3	4.8	2.8	2.5	1.7	2.0	2.8	4.3	4.7	5.1
PCE Deflator	YoY	1.1	1.4	1.8	1.0	1.1	1.5	1.5	1.7	1.8	1.8	1.8
Core PCE Deflator	YoY	1.2	1.4	1.8	1.2	1.1	1.4	1.5	1.7	1.8	1.9	1.8
Unemployment Rate	%	7.4	6.4	5.9	7.0	6.6	6.5	6.2	6.1	6.0	6.0	5.9
Federal Gov't Balance (Fiscal Year)	$Bn	-680	-475	-450								
	% of GDP	-4.1	-2.7	-2.5								
General Gov't Balance (Cal Year)	% of GDP	-7.3	-6.4	-5.6								
Federal Debt	% of GDP	72	73	73								
General Gov't Debt	% of GDP	105	106	106								
Current Account	US$bn	-379	-349	-280	-324	-370	-354	-343	-330	-307	-288	-271
	% of GDP	-2.3	-2.0	-1.5	-1.9	-2.1	-2.0	-1.9	-1.8	-1.7	-1.6	-1.5
S&P 500 Profits (US$ Per Share)	YoY	6.4	6.7	7.0	8.7	3.8	7.4	6.7	8.7	7.8	6.2	6.0

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

Japan

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

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

The consumption tax rate was hiked from 5% to 8% on April 1st. While there are media reports that the payback to frontloaded demand ahead of the tax hike is within the range of general expectations, we believe that it is premature to make any firm assessment about this issue. Moreover, we figure that a permanent negative impact from the erosion in real purchasing power of household nominal income — driven by the tax hike — may play out gradually in the months to come. Like the market consensus, we expect negative GDP growth will be confined to the current quarter, right after the tax hike, but growth in the following quarters will likely be relatively slow, unless exports recover in an unambiguous manner. We are sticking to our view that core inflation (adjusted for the impact from the tax hike) will slow again in coming months after hitting a peak at 1.4% YoY in April. First, the positive impact of the earlier yen depreciation already appears to be tapering off as the yen/dollar rate continues to be range-bound. Second, contributions from energy will also probably weaken from May. Lastly, pricing power of the corporate sector is likely to soften to some extent as the purchasing power of household income is eroded by the tax hike and earlier cost-push inflation.

The outlook for the BoJ's policy is quite uncertain. BoJ officials have been reiterating their bullish view on the economy, especially inflation. While we are maintaining our call that the BoJ will ease further, the timing now seems likely to be delayed into autumn (our previous view was for easing in the summer)[11]. Meanwhile, optimism about the Abe Administration's new growth strategy should be avoided, in our view. The Administration is now focusing on the corporate tax reform, but the most likely scenario over the next year seems a combination of broader tax base and a modest reduction in the nominal tax rate. We doubt that only a couple of point reduction in the tax rate will significantly improve Japan's locational attractiveness as production base or business arena.

Figure 24. Japan — Economic Forecasts, 2013-2015F

					2013	2014				2015		
		2013	2014F	2015F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	1.5%	0.9%	1.0%	2.5%	2.2%	0.1%	0.6%	0.7%	0.2%	1.4%	1.6%
	SAAR				0.7	3.3	-4.3	2.9	1.1	1.4	0.4	3.7
Domestic Demand	YoY	1.8	1.2	0.7	2.9	3.3	0.7	0.6	0.1	-0.6	1.4	1.6
	SAAR				2.7	4.5	-6.8	2.2	0.9	1.4	1.0	3.1
Private Consumption	YoY	1.9	0.3	0.5	2.3	3.0	-0.7	-0.4	-0.6	-1.9	1.5	2.1
	SAAR				1.6	7.0	-11.3	2.0	0.6	1.7	1.7	4.5
Business Investment	YoY	-1.5	4.4	4.2	0.9	4.0	3.6	4.7	5.4	4.2	4.5	4.5
	SAAR				3.0	8.7	2.6	4.5	6.0	3.8	3.7	4.3
Housing Investment	YoY	8.8	0.0	0.7	10.4	9.0	1.6	-3.7	-6.3	-4.3	3.8	5.0
Public Investment	YoY	11.6	3.4	-8.7	20.6	14.0	6.9	0.5	-6.0	-6.5	-9.5	-10.5
Exports	YoY	1.6	3.3	4.4	6.9	3.5	1.6	3.7	4.5	4.8	4.3	4.5
	SAAR				1.7	3.4	4.2	5.6	4.8	4.6	2.1	6.6
Imports	YoY	3.3	5.0	2.5	9.1	10.9	5.5	3.3	0.7	-0.8	4.0	4.4
	SAAR				14.7	11.7	-12.2	1.1	3.7	5.3	6.0	2.6
CPI	YoY	0.4	3.0	1.6	1.4	1.7	3.8	3.3	3.1	2.9	0.8	0.8
Core CPI	YoY	0.4	2.7	1.6	1.1	1.3	3.3	3.2	3.1	2.9	0.8	0.8
Nominal GDP	YoY	1.0	1.9	1.6	0.3	0.7	0.4	0.6	0.4	0.2	0.4	0.6
Current Account	¥ tn	3	-1	-1	0	-4	0	0	0	-1	-2	-2
	% of GDP	0.7	-0.2	-0.3	0.0	-0.9	-0.1	0.1	0.0	-0.1	-0.4	-0.4
Unemployment Rate	%	4.0	3.7	3.6	3.9	3.7	3.7	3.8	3.7	3.6	3.6	3.7
Industrial Production	YoY	-0.6	4.5	1.4	5.7	7.8	4.4	3.7	2.2	0.1	2.3	2.4
Corporate Profits (Fiscal Year)	YoY	45.0	10.0	12.5								
General Govt. Balance (Fiscal Year)	% of GDP	-9.8	-8.0	-6.2								
General Govt Debt	% of GDP	241	243	247								

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

[11] See "BoJ's outlook report – no change in message", Kiichi Murashima and Naoki Iizuka, 30 April 2014.

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

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

Ebrahim Rahbari
(44-20) 7986-6522
ebrahim.rahbari@citi.com

Euro Area

Euro area GDP growth probably accelerated slightly in 1Q-14. We look for a 0.4% QQ gain after 0.2% QQ in 4Q-13, likely lifting the YY GDP rate to a ten-quarter high of 1.1%. Sentiment surveys continue to improve, with more upside surprises from the periphery (Portugal will likely opt for a “clean exit” from the bailout programme in May), and also helped by the fading intensity of fiscal consolidation. Meanwhile the inflation picture remains muted at best, with the flash HICP reading for April at 0.7% YY after 0.5% YY in March. We still expect that large and persistent output gaps will keep inflation low and raise the risk of underlying inflation falling further, risking some dis-anchoring of medium- to long-term inflation expectations.

At its April meeting, the Governing Council added a full sentence to the introductory statement stressing that it was “*unanimous in its commitment to using also unconventional instruments within its mandate in order to cope effectively with risks of a too prolonged period of low inflation*”. The new communication strategy seems designed to ‘talk the currency down’ by being increasingly explicit about the list of tools available. We believe that the ECB will use standard and non-standard measures at its June 5 meeting, hoping that the recovery pushes headline inflation gradually higher. We look for a 15bp rate cut in the refi rate to 0.1% and a 10bp cut in the deposit rate to -0.1%, to be accompanied by liquidity measures such as the end of SMP sterilization and a longer window for the main refinancing operation under the full allocation fixed rate framework extending well into 2016.

However, we doubt these policy decisions will be enough to meaningfully change the euro area inflation outlook, requiring the ECB to buy insurance against an even more prolonged period of low inflation by launching a QE programme in 2H-14. We expect unsterilised large-scale asset purchases (LSAPs) of public and private assets of €1,000bn, to be completed over a year unless the ECB’s inflation forecast rises markedly during that period. We estimate that this programme will add around 0.3% to the CPI and 0.7% to real GDP over two or three years, leaving open the possibility that the QE programme may be expanded over time if necessary.

Figure 25. Euro Area — Economic Forecasts, 2013-2015F

					2013	2014				2015		
		2013	2014F	2015F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	-0.4%	1.3%	1.8%	0.5%	1.1%	1.2%	1.4%	1.6%	1.7%	1.7%	1.8%
	SAAR				0.9	1.5	1.6	1.5	1.7	1.8	1.9	1.8
Final Domestic Demand	YoY	-0.9	1.0	1.6	0.1	0.8	1.0	1.1	1.2	1.4	1.5	1.7
Private Consumption	YoY	-0.7	0.9	1.6	0.1	0.6	0.7	1.0	1.2	1.4	1.5	1.6
Government Consumption	YoY	0.1	0.1	0.5	0.2	0.0	0.2	-0.1	0.3	0.4	0.5	0.6
Fixed Investment	YoY	-2.9	2.5	2.9	0.0	2.3	2.7	2.8	2.3	2.5	2.8	3.0
Business Equipment	YoY	-1.8	3.5	3.8	1.4	3.2	3.3	4.0	3.3	3.9	3.9	3.7
Construction	YoY	-4.0	1.4	2.3	-1.6	0.8	1.6	1.4	1.7	2.0	2.3	2.5
Stocks (Contrib. to Y/Y GDP Growth)		-0.1	0.2	0.2	-0.1	0.0	0.2	0.1	0.5	0.4	0.3	0.2
Exports	YoY	1.4	3.0	3.3	2.8	4.2	2.4	3.0	2.3	2.9	3.2	3.5
Imports	YoY	0.0	3.0	3.7	1.9	3.8	2.7	2.6	2.9	3.3	3.6	3.8
CPI	YoY	1.4	0.6	0.9	0.8	0.7	0.7	0.5	0.8	0.9	1.0	0.9
CPI Ex Unprocessed Food & Energy	YoY	1.3	0.9	0.7	1.0	1.0	0.9	0.7	0.8	0.7	0.8	0.8
Unemployment Rate	YoY	12.0	11.8	11.3	11.9	11.9	11.8	11.7	11.6	11.5	11.4	11.1
Current Account Balance	EUR bn	230.2	247.7	233.4								
	% of GDP	2.4	2.5	2.3								
General Government Balance	EUR bn	-292.5	-258.4	-209.2								
	% of GDP	-3.1	-2.6	-2.1								
Primary Balance	% of GDP	-0.1	0.3	0.9								
General Government Debt	EUR bn	8,881.5	9,237.5	9,426.7								
	% of GDP	92.7	94.6	94.3								
Gross Operating Surplus	YoY	1.5	3.5	3.1								

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

Germany

Ebrahim Rahbari
(44-20) 7986-6522
ebrahim.rahbari@citi.com

This month we are leaving our 2014 growth forecasts unchanged but we raise our 2015-17 forecasts by 0.1-0.2pp each due to our expectation of a €1trn QE programme from H2 2014. Inflation in Germany continues to surprise on the low side and survey measures suggest low price pressures, which leads us to lower our 2014 forecast of German inflation to 1.3% YoY from 1.4% last month. We still expect German inflation to pick up in the coming years, to 1.8% and 2.1% in 2015 and 2016, respectively, due to incipient wage pressures, but also now some effects of QE.

France

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

New Prime Minister Manuel Valls confirmed that he would quicken the pace of reforms while earmarking €50bn (2.5% of GDP) of expenditure savings to finance the €30bn Responsibility and Solidarity Pact. The announcement of additional corporate and income tax cuts shows that priority is given to GDP growth over budget deficit reduction, with France expected to miss its 3%-of-GDP 2015 budget deficit target. More details have emerged about the reform programme and the focus on boosting corporate competitiveness while shrinking the size of the public sector should add to GDP growth in coming years. We think that the likelihood of a further rating downgrade is now very small. Implementation risks and the slower pace of budget deficit reduction will probably do little to the OAT/Bund spread.

Italy

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

QE is likely to have a relatively large positive impact on Italy, where there is more scope for an improvement in financial conditions, with the main impact probably on investment and exports. We lift our 2015 GDP growth forecast by 0.2pp, to 1.1%, and the forecasts for the following two years by 0.3-0.4pp per year. Tax cuts will also help support domestic demand this year, while planned public spending cuts remain smaller in scale, fuzzier and likely to come at a later stage. The 2014 fiscal deficit will probably remain around 3% of GDP for the third year, despite the cyclical recovery in tax revenues. The public debt-to-GDP ratio will only start falling from 2017, due to still-meagre nominal GDP growth prospects.

Figure 26. Germany, France and Italy — Economic Forecasts, 2013-15F

		Germany			France			Italy		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	0.5%	2.2%	2.4%	0.3%	1.0%	1.5%	-1.8%	0.6%	1.1%
Final Domestic Demand	YoY	0.7	2.2	2.7	0.3	0.6	1.0	-2.6	0.5	1.1
Private Consumption	YoY	1.0	1.7	2.6	0.4	0.6	1.0	-2.6	0.3	1.0
Government Consumption	YoY	0.7	1.2	1.5	1.8	0.4	0.8	-0.8	-0.5	-0.5
Fixed Investment	YoY	-0.6	5.0	4.2	-2.1	0.7	1.6	-4.6	2.4	3.5
Exports	YoY	1.0	3.5	3.5	0.8	2.3	2.6	0.0	2.5	2.6
Imports	YoY	1.0	4.1	5.4	0.8	1.9	1.5	-2.9	1.4	2.7
CPI	YoY	1.5	1.3	1.8	1.0	0.8	1.3	1.3	0.3	-0.2
Unemployment Rate	%	5.3	5.0	4.7	9.9	9.8	9.5	12.2	13.1	13.0
Current Account	€bn	201.7	186.4	157.1	-28.3	-11.8	1.4	15.8	19.8	19.8
	% of GDP	7.4	6.7	5.5	-1.4	-0.6	0.1	1.0	1.3	1.2
General Govt. Balance	€bn	-2.3	-0.1	0.0	-87.5	-81.6	-69.5	-47.3	-45.4	-42.2
	% of GDP	-0.1	0.0	0.0	-4.2	-3.9	-3.2	-3.0	-2.9	-2.7
Primary Balance	% of GDP	2.3	2.3	2.1	-1.6	-1.3	-0.6	2.2	2.0	2.1
General Govt. Debt	% of GDP	79.6	77.5	74.8	93.9	96.6	97.3	132.6	137.2	138.1
Gross Trading Profits	YoY	2.1	5.5	5.1	1.1	3.4	3.2	NA	NA	NA

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

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

Antonio Montilla
(44-20) 7986-3282
antonio.montilla@citi.com

Spain

We are lifting our 2014-2017 GDP growth forecasts to reflect stronger near-term domestic demand and QE activation. Rising employment suggests the recovery in the labour market is faster and more broad-based than previously estimated, supporting private consumption. Export growth should remain solid, but a rise in imports will probably cap the net export contribution to GDP growth. We expect inflation to remain very low, but to gradually pick up from close to zero in 2014.

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

Greece

We expect GDP growth to turn positive in late 2014, and to pick up faster than previously expected in 2015-16 due the positive impact of QE. The significant slowdown in the pace of fiscal consolidation will also help, although private sector liquidity remains meagre. The household saving rate is still highly negative and export growth is feeble compared with periphery peers. Deflation will probably persist, amid new agreed reforms to enhance internal competition. Further debt relief on official loans is likely in coming quarters, allowing the debt-to-GDP ratio to start to edge down in 2016 or 2017.

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

Ireland

We are lifting our 2014 GDP growth forecast to 1.8% from 1.3%, while nudging up forecasts for the next couple of years by two tenths. The upward revision to our 2014 outlook mainly reflects stronger activity data for recent months, with industrial production in January-February up by 1.8% from the Q4 average and retail sales volumes 2.1% up. The composite PMI is the highest since 2006 and we expect Q1 growth to be about 0.8% QoQ after the 2.3% drop in Q4. We allow for some benefits from QE In later years. With the pickup in real and nominal GDP growth, Ireland's government debt/GDP ratio is likely to fall slightly this year or in 2015, depending on the extent to which the government runs down its cash reserves.

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

Portugal

We are lifting our GDP growth forecasts by 0.2-0.3pp per year in 2015-2017 on the impact of QE on financial conditions, through higher investment and exports. Earlier-than-expected gains in employment will probably support consumption in the near-term. With 2013 fiscal targets outperformed, we assume the pace of fiscal consolidation will slow in 2014-15 relative to 2013. The public debt-to-GDP ratio will probably start to decline from 2015, mainly as a result of cash reserves being reduced. We expect a *"clean exit"* from the bailout programme in May, as political costs of a precautionary credit line probably outweigh its potential benefits.

Figure 27. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2013-15F

		Spain			Greece			Ireland			Portugal		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-1.2%	1.0%	1.6%	-3.9%	-0.8%	1.2%	-0.3%	1.8%	3.1%	-1.4%	1.5%	2.0%
Final Domestic Demand	YoY	-2.7	0.7	1.6	-6.4	-0.4	0.4	-0.2	2.3	1.0	-2.4	1.0	1.4
Private Consumption	YoY	-2.0	1.5	1.8	-5.8	-0.5	0.3	-1.1	1.5	1.2	-1.6	1.2	1.4
Government Consumption	YoY	-2.3	-0.9	0.1	-4.0	0.6	-0.6	-0.6	-2.8	-2.5	-1.7	-0.6	0.8
Fixed Investment	YoY	-5.0	0.0	2.5	-12.8	-1.3	2.8	4.9	12.9	4.0	-6.2	2.5	2.2
Exports	YoY	4.9	5.5	5.4	1.3	1.8	3.3	0.1	5.0	3.8	6.2	4.4	4.5
Imports	YoY	0.4	4.8	5.6	-5.3	-1.9	0.5	1.0	7.2	1.9	2.9	4.0	3.0
CPI	YoY	1.5	0.0	0.2	-0.9	-1.6	-1.7	0.4	0.8	1.0	0.4	-0.5	-0.7
Unemployment Rate	%	26.1	24.9	23.5	27.2	27.5	26.4	13.1	11.4	10.6	16.3	14.7	13.5
Current Account	€bn	8.0	8.0	7.1	1.4	3.4	4.2	10.9	14.7	15.8	0.7	3.7	4.3
	% of GDP	0.8	0.8	0.7	0.8	1.9	2.4	6.6	8.7	9.0	0.4	2.2	2.5
General Govt. Balance	€bn	-72.6	-60.1	-47.3	-23.1	-4.7	-4.5	-11.8	-9.2	-5.3	-8.1	-6.4	-4.7
	% of GDP	-7.1	-5.8	-4.5	-12.7	-2.6	-2.6	-7.2	-5.5	-3.0	-4.9	-3.8	-2.8
Primary Balance	% of GDP	-3.7	-2.4	-1.1	-8.7	1.8	2.0	-2.8	-0.5	2.0	-0.6	0.6	1.9
General Govt. Debt	% of GDP	93.9	99.2	102.0	175.1	182.0	184.6	124.0	122.0	121.5	129.0	135.2	132.4

F Citi forecast. YoY Year-to-year growth rate. For Ireland we show the GDP deflator rather than the CPI. For Spain, Greece, and Portugal fiscal deficits include financial support in 2013 of €4.7bn (0.5% of GDP), €19.3bn (10.6%), and €0.7bn (0.4%), respectively. Sources: INE, Haver Analytics, Eurostat and Citi Research forecasts

Netherlands

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

In April, 4Q GDP growth was revised up to 0.9% QQ from 0.7% QQ. The two main drivers were faster household expenditure growth (0.2% QQ vs. 0.1%) and a much stronger rebound in private gross fixed capital formation (9.9% QQ vs. 5.8%). We continue to expect some payback in Q1, looking for GDP growth to slow to 0.1% QQ (1.4% YY), but lift our 2014 GDP forecast by 0.1pt to 1.3%. PM Mark Rutte noted that his government would press ahead with making more cuts to balance the books despite the Netherlands having posted a 2013 budget deficit of 2.5% of GDP.

Belgium

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

While Belgium is gearing up for its legislative elections, the economy continues to expand modestly. We look for a 1% annualised gain in 1Q-14 GDP after a 2% annualised gain in Q4-13. Consumer confidence has been treading water in the first quarter, but business confidence continued to improve gradually, suggesting that the recovery should extend into the second half of 2014. One factor to watch is the strong euro, with Finance Minister Koen Geens warning that the strong currency is hampering Belgium's export competitiveness given the high domestic wage costs.

Slovakia

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

We leave our 2014 GDP forecast unchanged at 2%YoY, which is below consensus and official forecasts. However, better euro area GDP prospects and expectations of further ECB easing lead us to raise 2015 GDP growth forecast to 2.8%YoY from 2.5% before and to 3.1% in 2016 from 3%. Fiscal policy represents a downside risk as the debt/GDP ratio breached another key level in the debt-brake rule despite the narrower deficit. Though the government has prepared relatively sizeable measures to keep the debt-to-GDP ratio below 57% of GDP, an eventual downward revision to GDP growth could put this level at risk.

Slovenia

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

We kept our GDP growth forecast unchanged. The better outlook for foreign demand is offset by local political uncertainty because an early election is likely, given that coalition partners are unwilling to cooperate with reelected PS leader Jankovic. However, an early election may not necessarily resolve the issue, owing to personal animosities among key political players. The market will now likely focus on the banking sector after a relatively small local bank asked for state aid. We believe that it would be market-negative if there is not quick progress in following the EC's recommendations under the macroeconomic excessive imbalance procedure. However, we expect an eventual new government to follow these recommendations to avoid penalties from the European Commission.

Figure 28. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2013-15F

		Netherlands			Belgium			Slovakia			Slovenia		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-0.8%	1.3%	1.4%	0.2%	1.3%	1.5%	0.9%	2.0%	2.8%	-0.9%	0.4%	1.4%
Final Domestic Demand	YoY	-2.0	1.2	0.8	0.1	1.1	1.2	-0.8	1.6	2.0	-2.2	-0.2	1.2
Private Consumption	YoY	-2.1	0.1	0.7	0.7	1.1	0.9	-0.1	1.0	1.8	-2.9	-1.4	-0.4
Government Consumption	YoY	-0.2	-0.3	0.0	0.7	0.3	0.8	1.4	1.5	0.8	-2.0	-1.2	0.4
Investment (Ex Stocks)	YoY	-4.8	6.3	2.3	-2.5	1.9	2.4	-4.3	3.1	3.3	-0.2	2.4	1.0
Exports	YoY	1.4	1.4	2.4	1.8	3.0	3.6	4.5	6.2	8.6	2.7	4.5	5.5
Imports	YoY	-0.2	2.0	2.0	1.0	2.6	3.8	2.9	6.4	7.8	1.3	4.2	5.4
CPI (Average)	YoY	2.6	0.5	1.3	1.2	0.4	1.0	1.4	0.2	1.2	1.8	0.7	1.1
Unemployment Rate	%	8.3	8.8	8.6	8.4	8.4	8.1	14.1	13.0	12.4	10.1	10.1	10.1
Current Account	% of GDP	10.3	10.1	9.9	-1.6	1.1	1.7	2.4	2.8	3.4	6.3	3.0	2.7
General Govt Balance	% of GDP	-2.5	-3.0	-1.7	-2.6	-2.3	-1.9	-2.8	-3.0	-2.5	-14.7	-4.0	-3.5
Primary Balance	% of GDP	-1.8	-1.2	0.0	0.4	0.9	1.4	-1.5	-1.7	-1.3	-12.1	-1.1	-0.7
General Govt Debt	% of GDP	73.5	74.6	74.0	101.5	102.4	101.8	55.4	56.3	55.6	71.7	76.3	77.8

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

United Kingdom

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

The UK remains set for above-trend (and above-consensus) real GDP growth with below-target (and below-consensus) inflation. We are leaving our UK growth forecasts at 3.5% for 2014 and 3.6% for 2015, having raised them last month. Q1 GDP rose 0.8% QoQ and 3.1% YoY, the highest YoY gain since 2007, and business surveys remain buoyant. The upturn is fuelled by the combination of ultra-low interest rates plus QE, with diminished headwinds from private deleveraging and balance sheet repair, as well as reduced fiscal drag in the UK and reduced EMU strains externally. The recovery has broadened from the initial emphasis on consumer spending and a falling savings rate to now also include investment and exports, as well as a pick up in real wages. Consumer balance sheets have improved significantly, with the household debt/income ratio back to 2004 levels. Moreover, with wages picking up and inflation falling, we expect that real personal disposable incomes will rise by about 2.5% this year, the highest gain since 2006. At the same time, corporate balance sheets are strong, with corporate liquidity (the ratio of companies' sterling bank deposits to sterling bank debts) at the highest for over 40 years. This implies considerable scope for a rebound in employment, capex and dividends as companies become less risk-averse, and business surveys suggest that such a rebound is now underway.

CPI inflation is now down to 1.6% YoY, the lowest since 2009, and likely to stay below the 2% target in the next few quarters. However, with the strong upturn in growth and rising capacity use, we suspect that the inflation undershoot ultimately will be quite short-lived unless there is a major external disinflationary shock. The MPC have routinely hiked rates with inflation below target, reacting to capacity use, and we expect they will act the same in this cycle. We continue to expect the first hike to come in Q4 this year, with the first stage of the tightening cycle taking rates up to 2.5% in late 2015 — still leaving rates relatively low in real terms.

Figure 29. United Kingdom — Economic Forecasts, 2013-2015F

					2013	2014				2015		
		2013	2014F	2015F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	1.7%	3.5%	3.6%	2.7%	3.1%	3.4%	3.5%	3.9%	4.0%	3.7%	3.5%
	SAAR				2.7	3.5	4.1	3.8	4.1	4.0	3.1	2.7
Domestic Demand	YoY	1.8	3.0	3.8	2.4	3.3	3.3	2.1	3.4	3.7	3.9	4.0
(Incl. Inventories)	SAAR				-1.2	3.6	3.0	2.9	4.2	4.6	3.8	3.2
Private Consumption	YoY	2.2	2.9	3.4	2.2	2.1	3.0	3.0	3.5	3.6	3.5	3.5
	SAAR				1.5	3.1	3.9	3.5	3.5	3.3	3.9	3.1
Government Consumption	YoY	0.7	0.9	0.0	1.6	2.0	0.8	0.4	0.4	0.5	0.2	-0.2
	SAAR				0.1	-0.4	0.9	0.9	0.4	-0.1	-0.5	-0.5
Investment	YoY	-0.6	9.7	11.0	8.8	10.5	8.4	9.4	10.4	11.2	11.8	11.0
	SAAR				7.9	9.7	8.3	12.0	11.8	12.8	10.5	8.9
Exports	YoY	1.0	2.8	5.6	2.3	2.1	0.9	4.7	3.4	6.1	5.9	5.4
	SAAR				11.6	-4.6	5.2	7.4	6.1	5.6	4.4	5.6
Imports	YoY	0.5	1.9	6.9	1.0	2.8	1.1	0.8	2.9	5.7	6.9	7.5
	SAAR				-1.6	-2.5	2.6	5.1	6.9	8.2	7.4	7.4
Unemployment Rate	%	7.5	6.6	5.1	7.2	7.0	6.8	6.5	6.2	5.8	5.3	4.8
CPI Inflation	YoY	2.6	1.7	1.9	2.1	1.7	1.7	1.6	1.7	1.8	1.9	2.0
Merch. Trade	£bn	-108.6	-94.0	-93.2								
	% of GDP	-6.7	-5.5	-5.2								
Current Account	£bn	-71.1	-59.5	-64.4								
	% of GDP	-4.4	-3.5	-3.6								
PSNB	£bn FY	-106.8	-87.2	-60.0								
	% of GDP	-6.5	-5.0	-3.3								
General Govt. Balance	% of GDP	-7.1	-5.6	-3.8								
Government Primary Balance		-3.5	-2.0	0.0								
Public Debt	% of GDP	94.4	96.8	96.1								
Gross Nonoil Trading Profits	YoY	2.6	8.7	5.2								

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

Switzerland

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

The trade data show export volumes (goods only) up 2.4% QoQ in Q1, the biggest gain since Q1-2011, while import volumes fell 1.4% QoQ (after rising 3.6% QoQ in Q4). Given this, and buoyant business surveys, we expect that Q1 GDP (to be published in late May) will show GDP growth of about 1.0% QoQ, the highest since Q4-2010. Core inflation is likely to stay around zero in coming months. But the period of sustained deflation appears to be over and the economy has been remarkably robust given the elevated currency. As a result, the SNB is unlikely to follow the ECB with further easing unless pressured by overwhelming FX inflows.

Sweden

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

Although we expect a setback for GDP in 1Q (after the 1.7% Y/Y jump in 4Q), we still expect a solid pickup this year. Recovery, however, continues to face sizeable external headwinds from EM growth worries and modest euro area growth. At the same time, fiscal policy will have to tighten over time to meet the government's fiscal target. With very low inflation and medium-term inflation expectations below the 2% target, we expect a 25bp rate cut to 0.50% in July. Further easing later this year is possible if, as seems likely, downside inflation risks continue to dominate.

Denmark

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

We continue to see moderately accelerating growth ahead, driven by rising domestic demand, but also supported by growing exports. With economic growth set to outpace the very low potential rate potential in 2014-15, unemployment will probably begin to edge lower. The DNB has lifted the CD-rate to 0.05%, hence ending the period of negative interest rates. Our expectations of additional near-term monetary policy easing from the ECB should limit further depreciation pressures on the krone, and strong foreign demand for Danish assets plus the swelling current account surplus could support an appreciating DKK.

Norway

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

Weaker growth, deteriorating labour market and somewhat cooler housing market suggest that Norway is heading towards a more moderate growth phase with below-trend growth in coming years. Oil investment trends are also set to slow while the ongoing erosion in competitiveness suggests that Norway will be unable to benefit fully from global recovery. The expansionary fiscal policy stance and ongoing low policy rates should ensure a soft landing rather than an abrupt downturn.

Figure 30. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2013-2015F

		Switzerland			Sweden			Denmark			Norway		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.0%	2.2%	2.0%	1.5%	2.6%	2.7%	0.4%	1.0%	1.5%	2.1%	1.9%	2.1%
Final Domestic Demand	YoY	2.3	2.8	2.7	1.3	2.1	2.4	0.4	1.1	1.5	2.5	1.9	2.1
Private Consumption	YoY	2.3	2.2	1.8	2.0	2.3	2.7	0.0	1.1	1.7	2.1	1.6	2.3
Government Consumption	YoY	3.0	1.6	0.7	1.9	1.2	0.8	0.8	0.7	0.7	1.6	2.6	3.0
Investment (Ex Stocks)	YoY	1.8	5.0	6.2	-1.2	3.0	3.6	0.7	1.6	2.3	4.8	1.8	0.4
Exports	YoY	2.0	3.2	4.0	-0.9	2.7	4.6	1.2	2.7	3.1	-0.5	1.3	3.0
Imports	YoY	1.6	3.4	6.1	-1.0	2.6	4.1	1.7	1.9	3.4	2.2	1.4	2.4
CPI (Average)	YoY	-0.2	0.1	1.0	0.0	0.1	1.3	0.8	1.5	1.7	2.1	2.0	2.1
Unemployment Rate	%	3.1	2.6	2.2	8.0	7.8	7.5	7.0	6.9	6.7	3.5	3.7	4.1
Current Account	% of GDP	12.0	12.2	11.3	6.2	5.9	5.6	7.3	6.8	5.8	10.6	11.2	11.5
General Govt Balance	% of GDP	0.2	0.7	0.9	-1.4	-1.6	-1.0	-1.2	-1.3	-2.4	11.4	11.9	11.0
General Govt Debt	% of GDP	48.2	46.2	44.9	38.9	39.4	39.0	45.8	46.0	47.0	NA	NA	NA

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

Canada

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

The economy is rebounding from early-year woes, which included the severe US/Canada winter, a brief slump in EM activity and resurgence of geopolitical risks. Again, 1Q 2014 output likely was modest, but we continue to expect faster growth for the remainder of this year and beyond. The expansion should be supported by greater US demand momentum, the cheaper CAD, plus stronger oil exports amid North American energy infrastructure build-out. The internal demand rotation likely will remain a headwind, but Canadian businesses are increasing their engagement in the expansion and a broader array of exports sectors are firming. Elevated commodity prices and easy financial conditions support the outlook.

CPI inflation remains below the BoC's 2% target. Nonetheless, we are encouraged by evidence that many factors which have dampened prices are abating and inflation expectations are brightening. The elimination of excess supply with stepped-up GDP growth and stabilization of prices after an intense period of retail competition should lift consumer inflation ahead. Overall CPI inflation will probably return to target ahead of the core measure, reflecting one-off boosts from energy and currency depreciation shocks. The BoC appears unlikely to judge that downside risks are less, or even no longer, important until there is further improvement in exports, inflation and household imbalances. Hence, we continue to expect the next rate hike in 3Q 2015.

Risks to the inflation outlook remain roughly balanced, in our view. The main upsides risks include (1) outperformance of the US economy; and (2) reinvigoration of the housing market that reinforces existing imbalances. Downside risks include (1) uncertainties related to China's growth and credit concerns, EA geopolitical risks and US unconventional monetary policy unwind; (2) weaker-than-forecast global demand that hinders Canadian export growth; and (3) domestic consumer retrenchment linked to household debt and/or a housing market hard landing.

Figure 31. Canada — Economic Forecast, 2013-2015F

					2013	2014F				2015F		
		2013	2014F	2015F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	2.0%	2.3%	2.7%	2.7%	2.3%	2.4%	2.4%	2.3%	2.6%	2.6%	2.7%
	SAAR				2.9	1.5	2.5	2.6	2.4	2.8	2.7	2.8
Final Domestic Demand	YoY	1.4	1.6	2.1	1.2	1.5	1.5	1.6	1.8	2.0	2.1	2.1
	SAAR				1.2	1.4	1.9	2.1	1.9	2.3	2.2	2.2
Private Consumption	YoY	2.2	2.5	2.4	2.4	2.7	2.5	2.5	2.3	2.4	2.4	2.4
	SAAR				3.0	2.0	2.5	2.7	2.1	2.5	2.5	2.5
Government Spending	YoY	0.4	-0.6	0.3	-0.2	-0.5	-0.6	-0.6	-0.5	0.0	0.2	0.4
	SAAR				-0.4	-1.5	-0.5	-0.2	0.1	0.5	0.5	0.5
Private Fixed Investment	YoY	0.4	1.8	3.4	-0.4	0.7	1.4	1.9	3.3	3.5	3.4	3.4
	SAAR				-1.9	3.1	3.4	3.3	3.4	3.8	3.2	3.2
Exports	YoY	2.1	0.5	5.0	3.1	-0.3	-0.4	0.9	1.7	4.8	5.0	5.0
	SAAR				1.7	-7.2	4.5	5.3	4.7	4.9	5.1	5.5
Imports	YoY	1.1	-0.4	3.2	1.3	-1.1	-1.1	0.0	0.5	3.0	3.2	3.3
	SAAR				0.9	-6.4	2.5	3.3	3.0	3.3	3.3	3.5
CPI	YoY	0.9	1.8	2.0	0.9	1.4	1.9	1.9	2.0	1.8	1.9	2.0
Core CPI	YoY	1.2	1.5	1.9	1.2	1.3	1.5	1.7	1.7	1.8	1.8	1.9
Unemployment Rate	%	7.1	6.9	6.7	7.0	7.0	7.0	6.9	6.9	6.9	6.7	6.5
Current Account Balance	C$bn	-60.2	-62.8	-56.9	-64.0	-68.4	-63.9	-60.6	-58.5	-56.7	-57.5	-56.7
	% of GDP	-3.2	-3.2	-2.8	-3.4	-3.6	-3.3	-3.1	-2.9	-2.8	-2.8	-2.7
Net Exports (Pct. Contrib.)		0.3	0.3	0.5	0.2	-0.1	0.5	0.5	0.4	0.4	0.5	0.5
Inventories (Pct. Contrib.)		0.3	0.4	0.1	1.4	0.2	0.0	0.0	0.1	0.1	0.1	0.1
Budget Balance (Fiscal Year)	% of GDP	-0.9	-0.1	0.3								
Federal Budget Debt	% of GDP	32.6	31.3	29.5								
General Govt. Debt	% of GDP	95.7	95.3	93.3								

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

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

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

Australia

The economic outlook continues to evolve largely as expected. Growth is slowly returning to trend and rotating away from mining investment to other sources. At the same time, the potential for inflation to gather pace has not occurred. CPI data for Q1 showed that higher administered prices were offset by weaker market-based inflation and (thanks to the resilient currency) subdued tradeables prices. This kept the RBA's moderate inflation forecasts intact and makes a rate increase this year unlikely. That said, we do not believe the softer-than-expected CPI result is a reason for the market to anticipate an interest rate cut. House prices continue to climb and employment looks to have troughed. The main area of uncertainty relates to the impending Federal Budget. However, we are not expecting large front-loaded expenditure cuts. The government remains concerned about the strength of the recovery and the lingering impact of the still-high exchange rate. Instead, the forthcoming Budget should begin the process of fiscal reform that will take a number of years to complete.

New Zealand

The economic outlook remains strong and we continue to expect the OCR to reach 3.75% by the end of this year. Recent business surveys and reads on business and consumer confidence indicate the economy is continuing to grow faster than potential, thereby setting the scene for inflation to gradually rise above the mid-point of the 1%-3% target. The RBNZ Governor's hawkish statement announcing this month's 25bp rate rise to 3%, despite ongoing concerns about the high NZD, suggests that the Bank will deliver its third consecutive hike at the 12 June MPS. So far, the RBNZ has only removed the 50bp emergency rate rise following the Christchurch earthquake and the OCR is still well below a neutral cash rate. The pace of tightening will probably slow in H2 this year with two further rate rises then. But that will depend on whether there are signs that momentum in the economy is beginning to moderate and inflation evolves in line with current forecasts. The risks appear evenly balanced at this stage.

Figure 32. Australia and New Zealand — Economic Forecast, 2013-2015F

	Australia			New Zealand		
	2013	2014F	2015F	2013	2014F	2015F
Real GDP[a]	2.4%	2.9%	2.9%	2.7%	3.2%	2.7%
Real GDP (4Q versus 4Q)	0.3	2.8	3.0	3.1	3.1	2.1
Real Final Domestic Demand	0.9	2.1	1.7	4.4	5.2	4.0
Private Consumption	2.0	2.8	3.2	3.7	3.1	3.0
Govt. Current & Capital Spending[b]	1.1	2.1	2.4	1.3	3.0	2.8
Housing Investment	2.0	9.1	10.0	15.0	16.0	14.4
Business Investment[c]	0.5	-5.1	-7.6	9.3	11.4	5.6
Exports of Goods & Services	6.8	7.5	8.0	1.0	1.5	2.5
Imports of Goods & Services	-2.8	2.0	4.1	8.7	7.6	4.7
CPI	2.4	2.7	2.5	1.1	2.1	2.2
CPI (4Q versus 4Q)	2.7	2.2	2.6	1.6	2.1	2.3
Unemployment	5.8	6.2	6.0	6.0	5.3	5.0
Merch. Trade, BOP (Local Currency, bn)	4.4	12.0	13.2	1.4	-0.1	-2.5
Current Account, (Local Currency, bn)	-45.7	-40.8	-41.8	-7.5	-9.6	-13.0
Percent of GDP	-2.9	-2.5	-2.4	-3.4	-4.2	-5.4
Budget Balance[d] (Local Currency, bn)	-18.7	-48.8	-36.0	-6.4	-3.8	-0.9
Percent of GDP	-1.2	-3.0	-2.1	-2.9	-1.6	-0.4
General Govt. Debt (% of GDP)[e]	30.2	32.1	33.5	39.8	39.0	36.3
Gross Operating Surplus	2.7	6.0	6.4	NA	NA	NA

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

China

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

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

China recorded the slowest quarterly GDP growth since the global financial crisis. According to CEIC, the 1Q growth rate decelerated from 7.7% YoY in 4Q2013 to 7.357% YoY in 1Q2014, slightly higher than market and our expectation of 7.3%YoY. Real activity indicators (industrial production, fixed asset investment and retail sales) were broadly weaker than expected, offset by better growth in the service sector. The GDP deflator – estimated from the gap between nominal and real growth rates (0.43ppt in 1Q) — appears to show the biggest discount relative to headline CPI inflation since 2000. Nevertheless, more jobs (above 300 mn) were reportedly created in 1Q than the same period last year. The preliminary reading of the HSBC manufacturing PMI in April indicates that production activities remain weak while export orders stay lackluster. We expect GDP growth in 2Q may decelerate further to 7% YoY.

Macro policy fine-tuning has gained momentum since late March, in line with our expectation. The government had introduced a set of targeted policy easing measures, e.g., extending the SME tax cut, investing more in social housing, railway, nuclear power and irrigation in the countryside, and cutting the RRR for county-level rural banks. In the latest State Council regular meeting, the government plans to launch 80 pilot projects for the private sector to participate and invest, including oil and gas exploration, public service, water conservation, infrastructure, and so on. We expect further targeted policies to be taken by the authority to stabilize growth, such as removing the purchase restrictions in the property market, employing FX purchase and open market operations to bring down borrowing costs, more fiscal spending, and possible adjustment of the RRR and loan-to-deposit ratio in the banking sector.

The USDCNY recently broke the threshold of 6.25, and further weakness of the RMB towards 6.3 is possible in the near term. With rising credit risks, commercial banks have shown some hesitance to lend recently while the shadow banking sector continues to be suppressed. The slow pace of M2 growth could be a result of slower money velocity, all softening the cost of capital. The RMB depreciation has recently deterred hot inflows although a shift to net capital outflows is not yet in sight. The RMB may gain some support before the Chine-US strategic and economic dialogue in June/July and a possible export rebound in 2Q and beyond.

Figure 33. China — Economic Forecasts, 2013-2015F

					2013	2014F				2015F		
		2013	2014F	2015F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	7.7%	7.3%	7.0%	7.7%	7.4%	7.0%	7.1%	7.4%	7.4%	7.2%	6.8%
Real Final Domestic Demand	YoY	8.3	7.2	7.1								
Consumption	YoY	7.8	7.1	7.6								
Fixed Capital Formation	YoY	8.9	7.3	6.6								
Industrial Production	YoY	9.7	8.7	8.5	10.0	8.7	8.4	8.6	9.2	9.2	8.8	8.0
Exports	YoY	7.8	5.4	6.7	7.4	-3.4	7.0	8.0	9.0	8.0	7.0	6.0
Imports	YoY	7.3	4.5	7.3	7.1	1.7	6.0	5.0	5.0	6.0	7.0	8.0
Merchandise Trade Balance	$bn	259	291	298	90	17	76	81	118	27	81	75
FX Reserves	$bn	3,821	4,084	4,292	3,821	3,950	3,981	4,015	4,084	4,082	4,137	4,188
Current Account	% of GDP	2.0	2.0	1.5								
Fiscal Balance	% of GDP	-1.9	-2.1	-2.0								
General Govt. Debt*	% of GDP	53.7	54.0	53.4								
Urban Unemployment Rate	%	4.1	4.2	4.3	4.1	4.2	4.2	4.2	4.3	4.3	4.3	4.3
CPI	YoY	2.6	2.6	3.2	2.9	2.3	2.6	2.6	2.8	3.1	3.0	3.0
Exchange Rate (end period)	CNY/$	6.05	6.10	6.02	6.05	6.22	6.27	6.19	6.10	6.07	6.05	6.04
1-Yr Deposit Rate (end period)	%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00

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

India

Rohini Malkani
+91 22 6175 9876
rohini.malkani@citi.com

Anurag Jha
+91 22 6175 9877
anurag.jha@citi.com

All eyes remain fixed on the results of India general elections, due to be announced on May 16. Opinion polls have predicted a high possibility of BJP victory (220+ seats), and going by the large voter turnout in constituencies that have already voted, the anti-incumbency factor seems strong.

As discussed in the latest India Macroscope - Looking Beyond Elections, expectations from elections are high — and equity and currency markets have gained in anticipation. However the high frequency macro data suggest that it is still an uphill task for the economy. Industrial production growth in February fell to a nine month low of -1.9% YoY and exports contracted for second consecutive month in March. Going forward, we continue to see incremental easing of bottlenecks on the investment side as (1) the PMG continues to make progress despite state level and viability issues; (2) iron ore mining has resumed in Goa, which bodes well for exports; (3) after flattish growth in FY14, Coal India is expecting double-digit growth in FY15. An investor-friendly election outcome would further revive business sentiment. We maintain estimates of GDP growth to pick up to 5.6% in FY15 from 4.9% in FY14. The key risks to our forecasts are (1) a non-consensus poll outcome (2) rising likelihood of El-Niño and (3) another bout of EM risk aversion.

On the monetary front, the headline inflation rate picked up in March, with CPI rising to 8.3% YoY from 8% last month and WPI at 5.7% YoY, up from 4.7%. While the uptick in CPI inflation was driven by higher food inflation, the rise in the WPI was more broad-based. We maintain our view of CPI and WPI inflation averaging at about 8% YoY and 5.5% YoY in FY15 respectively vs 9.5% and 5.9% in FY14. As regards monetary policy, we continue to expect an extended pause on rates through 2014 as CPI inflation follows the RBI's 'glide path'. Key risks to the outlook: (1) interplay between commodity prices and currency, (2) El Niño, (3) evolving fiscal trends post the elections.

Lastly on the external front, we expect a marginal widening of the CAD in FY15 to US$46.7bn or 2.3% of GDP from US$36.8bn or 2% of GDP in FY14 on domestic recovery and a possible relaxation in gold restrictions post elections. As regards the Rupee, a positive election outcome could cause the INR to gap down, although we do not expect INR would stay below 60 for long, as RBI would take the opportunity to accumulate reserves. Overall we expect the unit to trade in the Rs60-64 range in FY15.

Figure 34. India — Economic Forecasts, FY2013/14-2015/16F

		FY 13/14F	FY 14/15F	FY 15/16F
Real GDP	YoY	4.9%	5.6%	6.2%
Final Domestic Demand	YoY	3.0	4.6	6.3
Private Consumption	YoY	4.1	5.5	7.0
Fixed Investment	YoY	0.2	2.5	5.0
Exports	YoY	8.0	11.0	9.0
Imports	YoY	-1.6	9.5	9.3
Wholesale Price Index	YoY	5.9	5.5	5.0
Consumer Price Index	YoY	9.5	8.0	7.5
Current Account	US$ bn	-37	-47	-58
	% of GDP	-2.0	-2.3	-2.5
Consolidated Fiscal Balance	% of GDP	-6.9	-6.7	-6.5
Centre Fiscal Balance	% of GDP	-4.6	-4.1	-4.0
US Dollar Exchange Rate	Average	61.8	63.6	63.3

Sources: Haver Analytics and Citi Research forecasts

Korea

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

After two months of sluggishness, the economy seems to be regaining recovery momentum, as exports rebounded and job growth remained above 600K YoY in March. With better-than-expected 1Q14 data, we are revising up 2014 GDP growth by 0.2%p to 3.9%. Owing to the brisk recovery of exports to the US (16.9% YoY) and EU (15.1% YoY), March exports grew 5.1% YoY, far faster than Jan-Feb (0.6%). We expect April exports to expand by around 9% YoY given 3.9% YoY export growth during the first 20 days (according to the Korea Customs service). Manufacturing employment rose 143K YoY in March — the second consecutive month of job growth over 130K — and service sector job growth has exceeded 530K YoY for three months. Moreover, hefty increases of orders received for machinery and construction in Jan-Feb point to better prospects for facilities and construction investment in the coming months. We do, however, have concerns over a possible temporary setback in the recovery due to the recent ferry disaster which has worsened economic sentiment. The likelihood of a cabinet reshuffle is high but we believe no major macro policy changes are likely as a result of this disaster.

Indonesia

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

The BI's stabilization measures in 2H13 continue to bear fruit. Import compression gained further traction in February, allowing the trade balance to register a surplus despite weaker ore exports (following full implementation of mining regulations). Imports of machinery and big ticket items remained weak as investment slows, although raw material imports and retail household spending have been resilient amid the elections. With external conditions more benign and inflation kept at bay (base effects expected in next few months), we see an extended pause in policy rates in 2Q and 3Q. That said, we do not rule out BI tightening towards the end of the year and 1Q15 if the new government decides to raise fuel prices (e.g. by 30%). However, any hike would likely be more for signaling purposes rather than to actually contract the economy. Regarding the elections, the choice of running mates for the presidential contenders is crucial. It could determine whether the elections finish in one or two rounds. The VP will also later shape the presidency's relationship with parliament, which is key to shoring up support for various reforms. A quick 1-round resolution of the elections may be taken positively by the markets. However downside (appreciation) pressure on the IDR in 2Q could be offset somewhat by debt repayments and seasonally higher dividend repatriations, in our view.

Figure 35. Korea and Indonesia — Economic Forecasts, 2013-2015F

		Korea			Indonesia		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	3.0%	3.9%	4.0%	5.8%	5.3%	5.5%
Final Domestic Demand	YoY	2.8	3.1	3.7	5.1	4.9	4.5
Private Consumption	YoY	2.0	2.7	3.3	5.3	5.1	4.4
Fixed Investment	YoY	4.2	4.4	4.8	4.7	3.5	6.1
Exports	YoY	4.3	5.9	6.9	5.3	4.0	5.7
Imports	YoY	1.6	6.3	6.7	1.2	2.3	3.1
Consumer Price Index	YoY	1.3	2.1	3.0	6.4	6.4	7.2
Unemployment Rate	%	3.1	3.3	3.1	5.8	6.5	6.3
Current Account	US$ bn	79.9	54.6	46.7	-28.5	-20.9	-19.3
	% of GDP	6.1	3.8	3.0	-3.3	-2.4	-2.1
Fiscal Balance	% of GDP	1.0	0.9	1.5	-2.2	-2.3	-1.7
US Dollar Exchange Rate	Average	1095	1054	1056	10449	11700	11967

Sources: Haver Analytics and Citi Research forecasts

Hong Kong

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

1Q GDP growth is likely to be sustained at 3.0% YoY. For 2Q, volatilities in asset markets are likely to weigh on the economy, as markets digest continual positive signs from US, although these probably are not sufficient to offset effects from China's slowdown. The new 'Shanghai-Hong Kong Stock Connect' is positive for overall liquidity as Chinese investors can invest in selected stocks in HK, while offshore investors can use the HK stock exchange to trade selected Shanghai shares. The CNH pool's multiplier would increase as a result, thus enforcing HK's unique status as a RMB offshore center and international financial center. We expect 2014 property price inflation to slow but not turn negative. The lower March CPI reading reflects slower private rental pass-through and mild disinflation is likely going forward. Luxury retail sales continue to be hit by China's anti-corruption drive.

Singapore

Kit Wei Zheng
+65 6657 50779
wei.zheng.kit@citi.com

MAS maintained its "modest and gradual appreciation" stance, with (as expected) no change to the slope, width or centre of the currency target band. The advance estimates for 1Q GDP showed growth of 0.1% QoQ SAAR, 5.1% YoY (4Q: +6.1% QoQ SAAR, 5.5% YoY), though the upside surprise in March IP implies an upward revision is likely. MAS maintained its 2-3% core inflation forecast, while cutting its headline forecast to 1.5-2.5% (from 2-3%). Together with the upwards rebound in March inflation (partly reflecting base effects) and a likely upward revision in 1Q GDP, no change to the policy stance is likely for now. Any headline disinflationary forces in 2H14 will likely be welcomed after recent years of high inflation and, if necessary, tackled via sector-specific measures rather than monetary policy.

Taiwan

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

1Q trade and manufacturing data confirmed the mild recovery, and we expect recovery momentum could pick up in 2Q as various tech product launches begin. Fund inflows have supported the equity market and helped ease depreciation pressures in recent weeks. RMB weakness and the still-lukewarm recovery will likely continue to weigh on the TWD and long bond yields in the nearterm. The 'sunflower movement' — with a 23-day student occupation of the Legislative chamber and the related 500K people rally — has ended peacefully. However, this has led to the need to pass a new cross-strait agreement to oversee legislation before the ECFA for Service agreement can be reviewed by the Legislature on a clause by clause basis. We believe meaningful review progress is unlikely before the November local elections; this could have profound implications for ECFA for goods and applications for TPP and RECP.

Figure 36. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2013-2015F

		Hong Kong			Singapore			Taiwan		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.9%	3.4%	3.8%	4.1%	3.5%	4.0%	2.1%	3.2%	3.8%
Final Domestic Demand	YoY	3.8	2.2	2.3	1.9	2.9	2.3	2.2	1.8	2.4
Private Consumption	YoY	4.2	2.1	2.4	2.7	2.0	2.3	1.8	1.6	2.8
Fixed Investment	YoY	3.3	2.6	2.8	-2.6	1.2	1.0	5.3	2.8	3.4
Exports	YoY	6.5	5.2	6.3	3.6	3.5	3.2	3.8	4.6	6.2
Imports	YoY	6.9	4.8	5.7	3.0	2.7	2.8	4.0	3.9	5.2
CPI	YoY	4.3	3.9	3.7	2.4	1.8	1.4	0.8	1.2	2.0
Unemployment Rate	%	3.4	3.1	3.1	1.9	1.8	1.8	4.2	4.0	3.9
Current Account	US$ bn	5.6	9.0	11.6	54.4	55.8	58.8	57.4	55.1	54.7
	% of GDP	2.1	3.1	3.9	18.4	18.0	18.0	11.7	11.0	10.2
Fiscal Balance	% of GDP	0.8	1.3	0.7	1.1	-0.3	0.2	-1.4	-1.4	-0.8
US Dollar Exchange Rate	Average	7.76	7.76	7.76	1.25	1.28	1.28	29.68	30.38	30.02

Sources: Haver Analytics and Citi Research forecasts

Russia

Ivan Tchakarov
+7 495 643 1507
ivan.tchakarov@citi.com

Rising tensions in the Ukraine make for a very challenging backdrop for the Russian economy, creating substantial downside risks to economic performance. The combination of more subdued investment and consumption spending related to heightened uncertainty, and tighter monetary policy, already led us to downgrade our 2014 GDP forecast from 2.6% to 1.0% (1.3% in 2013). Investment spending will be the key avenue via which market volatility will affect growth performance. Our more positive view on 2014 GDP was critically dependent on the assumption that government-led oil and gas investment would come out of its 2013 doldrums, with new projects coming on stream. However, given the uncertain backdrop, we now have much less confidence of this scenario playing out, even if, in principle, the government may feel more pressure to 'take control' of SOE investment. Consumer spending will also feel the pain. While consumption is the only bright spot in Russian macro, it has been slowing recently as fears that the consumer boom might turn into a bubble have led to more restrictive regulatory behaviour. Broader uncertainty will probably now further weigh on consumer spending. The CBR was right, in our view, to hike rates by 200bp to 7.50% to limit contagion, but this will also come at the cost of stronger headwinds to growth, including because of the recent S&P downgrade. More generally, Russia faces a tight fiscal-monetary policy mix, which creates an unfavourable background to the economy.

Turkey

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

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

Following the AKP's victory in the March local elections, there has been a decline in political noise, as all eyes are now on the first round of the Presidential elections to be held on 10 August. Recent developments suggest the AKP does not intend to bring general elections (scheduled for June 2015) forward. Following this development, we believe the likelihood of PM Erdogan running for the presidency is now much higher than before. His adherence to the AKP's three-term limit lends further support to this conjecture. Turning to the economy, the PM's comments suggesting that the CBT should lower interest rate have revived expectations of monetary policy easing. This backdrop — coupled with the recovery of the lira and the rally in the bond market — led the CBT to bring the money market rate from around 12% closer to 10% before raising it back to about 11.4%. Looking ahead, we believe an outright rate cut in the near-term is not very likely, given the difficult inflation outlook and the country's large external financing needs. Consequently, we are inclined to believe the markets have probably become carried away in terms of expectations of an outright rate cut in the near future.

Figure 37. Russia and Turkey — Economic Forecast, 2013-2015F

		Russia			Turkey		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.3%	1.0%	2.3%	4.0%	2.2%	3.5%
Final Domestic Demand	YoY	2.4	1.9	2.7	4.7	-3.1	3.4
Private Consumption	YoY	4.3	3.2	3.1	4.6	-1.5	3.2
Fixed Investment	YoY	-0.3	0.0	3.5	4.3	-11.4	4.0
Exports	YoY	1.5	2.0	2.1	0.1	11.0	4.4
Imports	YoY	5.5	4.5	5.0	8.5	-8.6	4.0
CPI	YoY	6.8	6.4	5.5	7.5	8.1	7.4
Unemployment Rate	%	5.5	5.7	5.8	9.8	9.5	9.5
Current Account	US$ bn	32.8	40.4	33.3	-65.0	-40.4	-42.1
	% of GDP	1.5	2.1	1.6	-7.9	-5.2	-5.2
Fiscal Balance	% of GDP	-2.1	-4.4	-4.9	-1.2	-2.8	-3.2
US Dollar Exchange Rate	Average	31.9	37.4	39.0	1.91	2.22	2.39

Sources: Haver Analytics and Citi Research forecasts

Hungary

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

Incoming 1Q14 data confirm a sustained rebound in industrial exports helped by a firming European recovery. The ongoing acceleration in retail sales has also exceeded our expectations and suggests that improved consumer confidence and rising net real wages are finally translating into household consumption growth. Based on an improved export and consumption outlook, plus accelerated absorption of EU funds, we have lifted our GDP forecast to 2.3% YoY in 2014 and 1.7% YoY in 2015 (both up by 0.2 percent from last month). We expect headline CPI may remain below 1% YoY in 1H14. However, base effects in utility, food and fuel prices, the weaker currency and accelerating household consumption will probably translate into rising CPI inflation in the second half of the year, lifting headline CPI to 2.4%YoY by year-end and towards the NBH's 3% official target in 2015. Rising inflation may necessitate a mini rate-hiking cycle in late 2014/early 2015. Given the MPC's dovish bias, the beginning of rate hikes may depend on the external environment, thus the increased chances of ECB implementing QE points towards Hungarian rate hikes materializing later.

Poland

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

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

Most recent monthly data from the economy confirm a gradual strengthening of economic growth. Although the PMI index dropped to 54 in March from 55.9, it stayed significantly above the 50pt expansion threshold level. Industrial output growth for March (5.4% YoY) was almost unchanged from February (5.3%), but construction output accelerated further to 17.4% YoY from 14.4% as the weather improved after a cold winter. Moreover, wage growth jumped to 4.8% YoY and employment growth strengthened 0.5%. Improving labour market statistics and a further acceleration in consumer loans will likely support a recovery in private consumption. Meanwhile, improved GDP growth forecasts and confidence among enterprises will likely support investment. At the same time the continued euro zone recovery should support manufacturing. We still expect GDP growth this year at 3.4%YoY, with some downside risk due to tensions between Russia and Ukraine and we also expect an increase in inflation to slightly over 1.5% YoY at the year end. This scenario probably means the first rate hikes will only take place in early 2015. The government's borrowing needs for 2014 are currently more than 80% financed, and will probably be fully secured by end-June. Hence, in 2H, the FinMin may have flexibility to pre-finance next year's needs. Lower issuance in 2H and still-low inflation will probably limit the negative impact on Polish bonds from Fed tapering and better growth prospects. Stronger growth and low current account deficit will also limit pressure on the zloty.

Figure 38. Hungary and Poland — Economic Forecasts, 2013-2015F

		Hungary			Poland		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.1%	2.3%	1.7%	1.6%	3.4%	3.6%
Final Domestic Demand	YoY	1.6	2.0	0.8	0.9	3.0	3.6
Private Consumption	YoY	0.2	1.7	1.5	0.8	2.7	3.2
Fixed Investment	YoY	5.9	3.1	0.0	-0.2	4.7	6.0
Exports	YoY	5.3	5.8	6.0	4.6	5.9	6.5
Imports	YoY	5.3	5.7	5.8	1.2	6.7	7.5
CPI	YoY	1.7	0.7	2.9	0.9	1.1	2.7
Unemployment Rate	%	9.1	8.6	8.5	13.4	12.4	11.7
Current Account	US$ bn	3.9	3.9	3.1	-6.6	-13.9	-21.8
	% of GDP	2.9	3.1	2.2	-1.3	-2.5	-3.7
Fiscal Balance	% of GDP	-2.3	-2.9	-2.9	-4.3	5.2	-2.7
Euro Exchange Rate	Average	297	315	322	4.20	4.23	4.17

Sources: Haver Analytics and Citi Research forecasts

Czech Republic

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

We maintain our 2014 growth forecast at 1.9% YoY, but increase our 2015 forecast to 2.6% (from 2.5% previously). The April confidence data suggest growth is already running at about 2.1% YoY, a little above our 2014 forecast. We continue to expect average value added growth of 0.6% QoQ in 2014. With better industrial activity, retail sales and higher capacity manufacturing use, we continue to believe that the late-2013 strength in fixed investment and private consumption was not temporary and will be not fully offset in 1Q. Moreover, the terms of trade have continued to improve, which is supportive for real domestic income and the demand-side. If we see further positive developments in industrial production and construction activity in 2Q14, it would be a signal for us to raise our GDP forecast. We increased our GDP growth forecast for 2015 owing to a better foreign demand outlook and as both fiscal and monetary policy will be probably pro-cyclical. Our CPI forecast is below the CNB's projection for both 2014 and 2015, but with negligible monetary policy implications. There is an upside risk if our forecast of a weaker USD does not materialize. Hence, we expect the CNB to start exiting its FX intervention in 2Q15 with a lower level of desired level of EURCZK from the current 27+, but we see a risk that a hike in the CNB's policy rate will be delayed beyond 4Q15. QE in the euro area probably would increase volatility in both FX and interest rates, particularly if the Czech economy starts to outperform its Western European peers. The MinFin is likely to cut its estimate for the 2014 government borrowing requirement.

Romania

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

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

Shrugging off the IMF's suggestion, the NBR continues to keep money market rates well below the policy rate of 3.5%. As was underlined by the IMF, prolonged periods of divergence between interbank rates and the policy rate — as well as excessive interbank rate volatility — run the risk of undermining the monetary policy transmission mechanism. We believe the NBR's current strategy, coupled with the drop in capital inflows (largely driven by payments related with the IMF debt and parent bank withdrawals), overshadows the leu outlook. From a risk-reward perspective, the failure of the NBR's approach to stimulate lending raises further questions about the feasibility of the present policy framework. Turning to the growth outlook, we see this year's GDP growth at around 3% thanks in part to better absorption of EU funds. However, we believe household, corporate, and foreign-parent bank deleveraging, along with rising non-performing loans, could continue to constrain credit growth and undermine the domestic demand recovery, thereby leading to a weaker growth this year than we currently envisage.

Figure 39. Czech Republic and Romania — Economic Forecasts, 2013-2015F

		Czech Republic			Romania		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-0.9%	1.9%	2.6%	3.5%	3.0%	3.4%
Final Domestic Demand	YoY	-0.5	1.1	2.6	0.0	1.8	3.3
Private Consumption	YoY	0.1	0.4	1.8	1.3	1.5	3.5
Fixed Investment	YoY	-3.5	2.7	5.2	-3.4	3.2	3.5
Exports	YoY	0.2	6.5	8.0	13.1	5.5	4.5
Imports	YoY	0.6	5.7	7.7	2.3	3.0	4.0
CPI	YoY	1.4	0.9	2.1	4.0	2.1	3.5
Unemployment Rate	%	7.0	7.0	6.8	5.3	5.5	5.5
Current Account	US$ bn	-2.9	0.3	1.6	-2.0	-5.1	-9.3
	% of GDP	-1.4	0.2	0.8	-1.1	-2.5	-4.2
Fiscal Balance	% of GDP	-1.5	-2.0	-2.5	-2.5	-2.3	-2.3
EURCZK, USDRON	Average	26.0	27.5	27.2	3.3	3.3	3.2

Sources: Haver Analytics and Citi Research forecasts

Brazil

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

Dilma Rouseff's government is losing steam even though energy rationing has not been announced yet, making the presidential election result a close call. We still believe that President Rousseff is the favorite, but the chances of the two opposition candidates (Aecio Neves from PSDB, and Eduardo Campos from PSB) are on the rise. We have increased our CPI inflation forecast for end-2014 to 6.6%, up from 6.1% and above the upper limit of the inflation target (6.5%). We have also raised our CPI inflation forecast for 2015 (to 6.3% from 5.8%). Regarding growth, we expect the better performance of activity indicators in February to be reversed in March. Thus, we are keeping our GDP growth forecast for this year unchanged at 1.3% YoY. As regards monetary policy, we expect no more hikes to the Selic rate in 2014, but we assume 150bps of hikes next year. In terms of the fiscal policy, and based on the budget guidelines, we have reduced our 2015 primary surplus forecast to 2% of GDP (from 2.5% previously). Better global conditions may support a stronger BRL in the near term, and hence we have lowered our USDBRL forecasts to 2.47 and to 2.61 for 2014 and 2015 yearend, respectively (from USDBRL 2.65 and 2.77).

Mexico

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

We now expect GDP to growth 2.4%YoY in 1Q14, down from 2.7% before. However, we have also reinforced our perception that export-related weakness is transitory and, thus, we are keeping our annual forecast unchanged at 3.3%. The Global Index of Economic Activity (a proxy for monthly GDP) was up 0.8% YoY in January versus 1.1%YoY in 2013. Some data, such as industrial output for February, suggest a slight acceleration in external demand, in line with a pickup in activity in the US. Meanwhile, local demand probably remained weak, helping to explain why inflation has been falling faster than originally expected, standing at 3.8% YoY in March versus 4.2% YoY in February. We believe annual inflation will rise a bit in the second half of the year and will close 2014 at 4%. Accordingly, we still expect Banxico to remain on hold at 3.5% throughout this year. We still see the first rate hike in June 2015, but now expect a more gradual hiking cycle, with the o/n rate closing 2015 at 4.25%. We now think that Congress will call for an extraordinary period of sessions, probably in May, as its ordinary period ends on April 30 and the approval of several pieces of legislation — including the secondary laws of the energy reform — is still pending.

Figure 40. Brazil and Mexico — Economic Forecasts, 2013-2015F

		Brazil			Mexico		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.3%	1.3%	1.8%	1.1%	3.3%	4.0%
Final Domestic Demand	YoY	2.9	1.3	1.6	1.4	3.3	4.4
Private Consumption	YoY	2.3	1.7	1.9	2.5	3.1	4.0
Fixed Investment	YoY	6.3	-0.8	1.1	-1.8	4.7	6.9
Exports	YoY	2.5	2.5	6.8	1.4	6.9	5.5
Imports	YoY	8.4	2.3	4.4	1.2	6.6	7.4
CPI	YoY	6.2	6.5	6.3	3.8	4.1	3.7
Unemployment Rate	%	5.5	5.8	6.0	5.0	4.8	4.5
Current Account	US$ bn	-81.4	-83.3	-84.7	-22.3	-27.4	-25.8
	% of GDP	-3.7	-4.1	-4.1	-1.8	-2.1	-1.8
Fiscal Balance	% of GDP	-3.3	-3.9	-3.4	-2.4	-3.5	-2.5
US Dollar Exchange Rate	Average	2.16	2.35	2.57	12.76	13.14	12.92

Sources: Haver Analytics and Citi Research forecasts

Argentina

Guillermo Mondino
+1 212 816 6499
guillermo.mondino@citi.com

The “stabilization” that followed the devaluation and drop in reserves of the first two months of 2014, mostly in January, was based on three pillars: i) a more depreciated nominal exchange rate; ii) some money absorption by the BCRA and higher interest rates; iii) regulatory changes limiting banks’ FX positions, short-term FX inflows and tighter controls on import payments, together with the seasonal pickup in exports in 2Q. However, we believe that, if no further actions are undertaken by the government, particularly in the fiscal front, turbulence may resume once agricultural exports start to decline in two or three months. Argentina also made some progress in its negotiations with the Paris Club and settled differences with Repsol. Furthermore, the country launched a new price index and revised its national income statistics. These actions are indications that Argentina is normalizing relations with international creditors. However, they are unlikely to stabilize the domestic money and FX markets. We continue to expect non-official real GDP to drop by about 1% this year, the USDARS to stand at 10 in the official market by yearend, and consumer prices to rise by about 38% (according to non-official estimates).

Venezuela

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

With the loosening of political tensions, partly due to the ongoing conversations between the government and the opposition, economic policy has taken center stage. On this ground, the opening of the SICAD II market has disappointed, as the approved volumes (which have not been officially published) have been too low to reverse the scarcity of foreign currency faced by the private sector. In this context, we see inflation increasing to 75% YoY by yearend, with activity dropping 1% this year. Given the deterioration in economic fundamentals, we do not rule out additional episodes of social unrest. Going forward, the way the government handles the economy in order to boost local production and reduce the scarcity of goods will be crucial; to succeed, this probably would require the elimination of some of the restrictions and caps previously imposed by the authorities. In our view, the government’s choice of whether or not to do such changes will have important implication for the evolution of the economic situation in the upcoming months and the likelihood of future social unrest.

Figure 41. Argentina and Venezuela — Economic Forecasts, 2013-2015F

		Argentina			Venezuela		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	4.9%	1.0%	1.5%	1.3%	-1.0%	1.9%
Final Domestic Demand	YoY	6.0	0.8	1.6	-0.3	-1.1	0.7
Private Consumption	YoY	6.0	2.1	2.1	3.7	0.1	0.3
Fixed Investment	YoY	5.7	-3.7	-0.3	-3.5	-3.5	0.9
Exports	YoY	-0.1	-1.6	-1.5	-3.8	1.3	4.2
Imports	YoY	8.6	-1.9	0.0	-4.6	-0.7	-1.0
CPI	YoY	10.6	NA	30.5	38.5	62.5	82.1
Unemployment Rate	%	7.1	7.7	8.1	5.6	5.2	4.8
Current Account	US$ bn	-2.9	-1.9	-1.6	12.2	14.9	18.2
	% of GDP	-0.6	-0.5	-0.4	3.3	4.1	5.1
Fiscal Balance	% of GDP	-2.4	-3.1	-2.3	-11.9	-11.2	-10.3
US Dollar Exchange Rate	Average	5.45	8.89	11.81	5.99	10.58	19.80

Sources: Haver Analytics and Citi Research forecasts

Saudi Arabia

Farouk Soussa
(44-20) 7986-4356
farouk.soussa@citi.com

Saudi crude oil production continued at an elevated level in excess of 9.7mbpd in March. Production has been in the 9.6mbpd-10mbpd range since mid-2013, while prices have held up in the US$106/bbl to US$110bbl range. Interestingly, a large proportion of this increase has been directed towards exports to the United States, which (according to the US EIA) has increased imports from offset to declining Venezuelan imports by the US, and some is being directed towards Saudi Arabia's expanded refining capacity in the United States. Either way, these suggest a firm underpinning to the rise in Saudi production, in our view, which we believe is likely to be sustained in the near term. We are thus raising our expected average 2014 production for Saudi Arabia from 9.2mbpd to 9.5mbpd (on par with 2013). As a result, we expect public finances and external balances to remain robust in the near term: We are raising our current account surplus forecast for 2014 to 14.8% (from 13.7 previously), real GDP growth to 4.8% (from 4.2%) and the fiscal surplus to 6.2% (from 5.1%). That said, we think rising expenditures and an expected levelling off in oil revenues and production present a challenge in the medium- to long-term. We forecast the fiscal breakeven oil price will rise to close to US$100 per barrel in 2015 and will continue to rise, resulting in forecast deficits as early as 2016. Although Saudi has ample resources to finance expected deficits from current cash reserves, the outlook does underscore the need for structural reform to set public finances on a long-term sustainable footing.

United Arab Emirates

Farouk Soussa
(44-20) 7986-4356
farouk.soussa@citi.com

We continue to harbor concerns regarding the pace of asset price inflation in Dubai. The Dubai Financial Market all-shares index gained over 108% in value in the course of 2013, and Cluttons data showed that the average selling price of mid-range villas rose 42% during 2013. There are, however, early indications of a cooling off in the real estate market in recent months, with hardly any growth in property prices in the first three months of the year. Moreover, real estate sales have come down since their peak last May. We believe it is still too early to judge whether this is a lasting cooling in the property market, or a temporary lull. Indeed, while real estate transactions are down from their peak, they have been rising steadily in the past three months, suggesting a potential pass-through to future prices, in our view.

Figure 42. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2013-2015F

		Saudi Arabia			United Arab Emirates		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	3.8%	4.8%	5.9%	3.7%	4.0%	4.0%
Final Domestic Demand	YoY	-0.4	8.0	8.1	4.7	4.7	4.7
Private Consumption	YoY	-1.3	5.0	5.0	5.0	5.0	5.0
Fixed Investment	YoY	-1.2	10.0	10.0	5.0	5.0	5.0
Exports	YoY	-9.2	1.5	-2.3	14.0	13.0	14.0
Imports	YoY	-2.6	15.0	15.0	15.0	15.0	15.0
CPI	YoY	3.5	3.5	4.1	1.1	1.8	2.1
Current Account	US$ bn	135.3	116.0	73.5	107.3	93.8	80.0
	% of GDP	18.2	14.8	8.9	26.2	21.4	17.0
Fiscal Balance	% of GDP	7.4	6.2	1.3	NA	NA	NA
US Dollar Exchange Rate	Average	3.75	3.75	3.75	3.67	3.67	3.67

Sources: Haver Analytics and Citi Research forecasts

Egypt

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

The military's political roadmap to a new political dispensation should clearly unfold in 2014 following the approval of a new constitution. The first step will be presidential elections set to be held on May 26/27. Eligible candidates for the poll are to be announced on May 2 and likely to include former military commander Abdelfattah el Sisi. This will then be followed by parliamentary elections in July or August. Since mid-2013, the transition has been helped by substantial Gulf support which has helped stabilize the exchange rate and partially eased — but clearly not eliminated — foreign exchange shortages. In addition, the government plans to use Gulf support going forward to fund a major push in capital spending to kick start the economy. Coupled with greater political stability, this should allow a recovery in more general investment and tourism. But while this will help drive an economic recovery in 2015, there is still a pressing need for a medium- to long-term strategy to reduce the fiscal deficit, to help stabilize the Egyptian pound going forward.

South Africa

Gina Schoeman
(27) (11) 944 0813
gina.schoeman@citi.com

Downside risk to our GDP forecast has emerged and we now expect 2.3% growth this year. Higher inflation and tighter monetary policy remain drags but electricity shortages and strike action have been unfortunate flare-ups. Signs of rebalancing from consumption to production are emerging, but lackluster private sector investment is a missing link — meaning scant upside for jobs. Higher CPI inflation, driven by the ZAR, food prices and rental yields pushed CPI above the SARB's 6% target ceiling in March, and will probably keep it above-target until early Q2 15. This is a key reason why the SARB hiked rates 50bp proactively in January. But the weak economy also will probably allow a slow hiking cycle, which explains the SARB's decision to pause in March. Looking ahead, we expect a resumption of the hiking cycle in May (market opinion is divided as to whether this will be 25bp or 50bp) as a necessary evil to help stabilize the currency and sustain the rebalancing of the economy. We thus expect the current account deficit to continue to narrow through the year from 5.1% of GDP in Q1 14 to 4.6% of GDP by year-end. A smaller current account deficit is ZAR-positive but still requires sizeable capital flows against a backdrop of questionable liquidity. This, together with political noise ahead of the upcoming national elections on 7 May 2014, will probably leave the ZAR undervalued over coming months, in our view. That said, if rebalancing continues and the current account narrows more than expected, the ZAR should at least prove less volatile.

Figure 43. Egypt, Nigeria and South Africa — Economic Forecast, 2013-2015F

		Egypt			Nigeria			South Africa		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.5%	2.4%	3.2%	6.6%	6.4%	6.4%	1.9%	2.3%	2.9%
Final Domestic Demand	YoY	2.5	3.0	3.5	NA	NA	NA	2.9	2.7	3.2
Private Consumption	YoY	3.7	2.0	2.6	NA	NA	NA	2.6	2.4	3.1
Fixed Investment	YoY	2.1	1.6	9.9	NA	NA	NA	4.7	3.8	4.1
Exports	YoY	-6.3	2.2	5.6	NA	NA	NA	4.2	6.6	5.5
Imports	YoY	-3.4	4.7	7.2	NA	NA	NA	4.7	4.0	6.8
CPI	YoY	9.5	9.1	7.1	8.5	8.8	10.6	5.8	6.5	5.8
Unemployment Rate	%	13.4	14.2	14.5	NA	NA	NA	24.7	25.0	24.6
Current Account	US$ bn	-3.6	-2.9	-5.5	22.4	15.8	10.7	-20.4	-16.7	-15.4
	% of GDP	-1.4	-1.1	-1.9	3.8	2.4	1.4	-5.8	-4.9	-4.2
Fiscal Balance	% of GDP	-9.3	-9.5	-8.4	-1.4	-1.7	-1.6	-4.3	-4.2	-4.2
US Dollar Exchange Rate	Average	6.87	7.10	7.54	159.2	164.25	168.83	9.65	10.89	11.02

Sources: Haver Analytics and Citi Research forecasts

Figure 44. Selected Emerging Market Countries — Economic Forecast Overview, 2013-2015F

	GDP Growth (%)			CPI Inflation (%)			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F	2013F	2014F	2015F
Asia	6.3	6.2	6.3	3.7	3.5	3.9	2.2	2.1	1.5	-2.3	-2.4	-2.2
China	7.7	7.3	7.0	2.6	2.6	3.2	2.0	2.0	1.5	-1.9	-2.1	-2.0
Hong Kong	2.9	3.4	3.8	4.3	3.9	3.7	2.1	3.1	3.9	0.8	1.3	0.7
India	4.9	5.6	6.2	9.5	8.0	7.5	-2.0	-2.3	-2.5	-6.9	-6.7	-6.5
Indonesia	5.8	5.3	5.5	6.4	6.4	7.2	-3.3	-2.4	-2.1	-2.2	-2.3	-1.7
Korea	3.0	3.9	4.0	1.3	2.1	3.0	6.1	3.8	3.0	1.0	0.9	1.5
Malaysia	4.7	5.0	5.0	2.1	3.5	4.5	3.8	4.4	4.0	-3.9	-3.5	-3.0
Mongolia	11.7	10.0	9.0	10.5	13.3	12.0	-31.0	-13.8	-16.1	-7.8	-7.4	-4.3
Philippines	7.2	6.9	7.3	2.9	4.1	4.0	3.5	3.5	2.9	-1.4	-1.8	-1.6
Singapore	4.1	3.5	4.0	2.4	1.8	1.4	18.4	18.0	18.0	1.1	-0.3	0.2
Sri Lanka	7.3	7.2	7.4	6.9	5.5	6.5	-3.9	-3.3	-3.1	-5.9	-5.6	-5.3
Taiwan	2.1	3.2	3.8	0.8	1.2	2.0	11.7	11.0	10.2	-1.4	-1.4	-0.8
Thailand	2.9	1.8	4.1	2.2	2.3	2.7	-0.7	2.2	-1.1	-1.8	-1.2	-1.8
Vietnam	5.4	5.7	5.9	6.6	5.4	6.8	5.3	4.1	2.9	-5.3	-5.3	-4.5
Latin America	2.4	2.1	2.8	7.5	9.1	10.1	-2.6	-2.8	-2.5	-3.2	-3.7	-3.1
Argentina	4.9	1.0	1.5	10.6	NA	30.5	-0.6	-0.5	-0.4	-2.4	-3.1	-2.3
Brazil	2.3	1.3	1.8	6.2	6.5	6.3	-3.7	-4.1	-4.1	-3.3	-3.9	-3.4
Chile	4.1	3.5	4.5	4.5	0.9	2.9	-3.3	-3.4	-4.0	-0.3	-0.4	-0.4
Colombia	4.3	4.6	5.0	2.0	2.6	3.3	-3.4	-3.5	-3.6	-1.4	-1.3	-0.7
Costa Rica	3.5	3.1	2.2	5.2	3.9	5.0	-5.1	-7.5	-7.9	-6.5	-7.2	-7.7
Dominican Republic	4.1	4.5	4.5	4.8	4.0	4.6	-4.4	-4.8	-5.0	-4.1	-4.0	-4.2
Ecuador	4.5	4.5	4.5	2.7	3.6	2.4	-1.3	-1.5	-0.8	-2.4	-1.9	-1.5
El Salvador	1.8	2.2	2.5	0.8	0.8	1.8	-6.1	-6.3	-5.7	-4.2	-4.1	-3.7
Mexico	1.1	3.3	4.0	3.8	4.1	3.7	-1.8	-2.1	-1.8	-2.4	-3.5	-2.5
Panama	8.4	6.2	5.5	4.0	2.7	2.8	-11.3	-9.0	-8.5	-3.0	-3.0	-3.0
Peru	5.0	5.7	6.2	2.8	2.9	2.5	-5.2	-5.6	-1.5	0.8	0.0	0.0
Venezuela	1.3	-1.0	1.9	38.5	62.5	82.1	3.3	4.1	5.1	-11.9	-11.2	-10.3
Europe	2.0	1.7	2.9	5.3	5.3	5.1	-1.3	-0.5	-0.9	-2.2	-2.4	-3.6
Bulgaria	0.9	1.5	2.5	0.9	-0.4	2.5	1.9	-0.2	-0.5	-1.5	-2.0	-1.2
Croatia	-1.0	0.5	1.5	2.2	0.5	2.7	1.3	0.5	-0.5	-4.9	-4.8	-3.5
Czech Republic	-0.9	1.9	2.6	1.4	0.9	2.1	-1.4	0.2	0.8	-1.5	-2.0	-2.5
Hungary	1.1	2.3	1.7	1.7	0.7	2.9	2.9	3.1	2.2	-2.3	-2.9	-2.9
Kazakhstan	6.0	5.0	6.0	5.7	6.5	5.9	-0.1	1.0	1.3	3.2	2.3	2.2
Poland	1.6	3.4	3.6	0.9	1.1	2.7	-1.3	-2.5	-3.7	-4.3	5.2	-2.7
Romania	3.5	3.0	3.4	4.0	2.1	3.5	-1.1	-2.5	-4.2	-2.5	-2.3	-2.3
Russia	1.3	1.0	2.3	6.8	6.4	5.5	1.5	2.1	1.6	-2.1	-4.4	-4.9
Serbia	2.5	1.2	2.0	7.9	3.8	6.5	-4.8	-4.8	-5.0	-5.7	-7.0	-6.5
Slovakia	0.9	2.0	2.8	1.4	0.2	1.2	2.4	2.8	3.4	-2.8	-3.0	-2.5
Turkey	4.0	2.2	3.5	7.5	8.1	7.4	-7.9	-5.2	-5.3	-1.2	-2.8	-3.2
Ukraine	0.0	-3.2	2.1	-0.3	5.5	6.4	-9.3	-5.4	-3.7	-6.7	-4.3	-3.4
Africa/Mideast	3.8	4.6	5.2	4.2	4.4	5.0	11.9	10.1	7.6	1.7	1.1	-0.6
Bahrain	5.3	4.0	4.0	3.3	2.5	2.0	6.8	5.5	1.3	-2.3	-3.5	-5.9
Egypt	1.5	2.4	3.2	9.5	9.1	7.1	-1.4	-1.1	-1.9	-9.3	-9.5	-8.4
Ghana	7.4	4.6	6.5	11.7	13.3	10.0	-12.7	-14.4	-14.1	-10.8	-10.2	-9.0
Iraq	3.2	10.3	11.5	1.9	3.0	5.5	13.2	13.6	12.6	-5.8	-2.3	-1.2
Israel	3.2	3.4	3.5	1.5	1.2	3.0	2.5	1.9	1.7	-2.7	-3.0	-2.5
Jordan	2.8	4.0	4.5	5.5	4.0	5.0	-11.3	-10.2	-7.9	-5.5	-9.6	-9.4
Kenya	5.1	5.5	6.1	5.4	6.2	6.5	-7.8	-7.6	-7.5	-7.0	-5.5	-4.5
Kuwait	4.3	3.9	3.9	2.6	3.0	4.5	51.0	49.5	47.8	27.2	27.0	21.0
Lebanon	1.4	2.0	2.4	2.1	3.0	5.0	-9.0	-9.8	-10.7	-9.3	-8.7	-8.0
Nigeria	6.6	6.4	6.4	8.5	8.8	10.6	3.8	2.4	1.4	-1.4	-1.7	-1.6
Oman	3.4	4.7	4.7	2.1	1.2	3.0	10.5	8.4	6.5	9.7	8.2	5.9
Qatar	6.5	5.9	6.2	3.1	2.5	3.5	31.0	26.7	21.7	8.4	4.4	1.2
Saudi Arabia	3.8	4.8	5.9	3.5	3.5	4.1	18.2	14.8	8.9	7.4	6.2	1.3
South Africa	1.9	2.3	2.9	5.8	6.5	5.8	-5.8	-4.9	-4.2	-4.3	-4.2	-4.2
Tanzania	6.8	7.0	8.1	7.9	7.4	6.6	-10.2	-14.1	-12.4	-5.0	-5.2	-5.9
UAE	3.7	4.0	4.0	1.1	1.8	2.1	26.2	21.4	17.0	NA	NA	NA
Uganda	6.0	6.0	5.5	5.5	5.9	6.8	-12.0	-13.9	-14.9	-3.4	-3.3	-4.5
Zambia	6.2	6.4	6.3	7.0	7.8	8.0	0.2	-1.0	-1.5	-6.5	-6.1	-5.5
Total	4.5	4.5	5.0	4.7	4.9	5.3	2.0	1.9	1.3	-2.0	-2.3	-2.4

Sources: National sources and Citi Research forecasts

Sovereign Ratings

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

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

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

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

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

	S&P Ratings				Moody's Ratings			
Country	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Canada	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3 (Stable)	A1 ↓
Germany	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
France	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa1
Italy	BBB	Neg	BBB (Neg)	BBB	Baa2	Stable	Baa2 (Stable)	Baa2
Spain	BBB-	Stable	BBB- (Stable)	BBB ↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↑
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Belgium	AA	Stable	AA (Stable)	AA	Aa3	Stable	Aa3 (Stable)	Aa3
Finland	AAA	Neg	AAA (Neg)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Greece	B-	Stable	B- (Stable)	B-	Caa3	Stable	Caa3 (Stable)	Caa3
Ireland	BBB+	Positive	A- (Stable) ↑	A- ↑	Baa3	Positive	Baa2 (Stable) ↑	A3 ↑↑↑
Netherlands	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Portugal	BB	Neg	BB+ (Pos) ↑	BBB- ↑↑	Ba3	Stable	Ba2 (Pos) ↑	Baa3 ↑↑↑
UK	AAA	Neg	AAA (Stable)	AAA	Aa1	Stable	Aa1 (Pos)	Aaa ↑
Switzerland	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Sweden	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Denmark	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Norway	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
EU	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
ESM	Not rated				Aa1	Neg	Aa1 (Neg)	Aa1
EFSF	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa1

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

Expected Ratings Issues

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

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

France — further downgrades unlikely: France remains on negative outlook by Moody's (Aa1) which rates the sovereign one notch higher than S&P (AA). Fundamentally, PM Manuel Valls has confirmed the quickening in pace of reforms while earmarking €50bn of expenditure savings to finance the €30bn Responsibility and Solidarity Pact. Priority is now given to GDP growth over budget deficit reduction, with France expected to miss its 3%-of-GDP 2015 budget deficit target. However, the renewed focus on boosting corporate competitiveness and shrinking the size of the public sector should add to GDP growth in coming years. On balance, we think that the likelihood of a further rating downgrade is now very small. We expect Moody's to maintain its negative outlook until they can review the 2015 budget in the autumn (*Will Valls Succeed Where Others Have Failed?*).

Greece – successful issuance is a credit positive: In the latest milestone for the thawing EMU periphery primary market, Greece issued €3bn of 5yr bonds at a yield of 4.95% in April (*Greece returns to markets*). Although Moody's maintained its Caa3 Stable rating earlier this month, the ability to access private markets in a sustainable way is likely to be viewed as a credit positive by the rating agencies. We expect no change in the rating over the medium term with questions surrounding debt sustainability likely to keep the rating sub-IG for several years ahead.

Figure 46. Upcoming Rating Calendar

Date	Sovereign	Rating Agency	Current Rating	Current Outlook
09-May-14	Malta	Moody's	A3	Stable
09-May-14	Portugal	Moody's	Ba3	Stable
09-May-14	Portugal	S&P	BB	Neg
16-May-14	Ireland	Moody's	Baa3	Pos
23-May-14	Netherlands	S&P	AA+	Stable
23-May-14	Spain	S&P	BBB-	Stable
23-May-14	France	Moody's	Aa1	Neg
23-May-14	Slovenia	Moody's	Ba1	Neg
30-May-14	Latvia	S&P	BBB+	Pos

Source: Citi Research, Moody's, S&P

Portugal — upgrades on the horizon? Fortuitously, Portugal features on S&P's and Moody's rating calendar on the same day: 9 May (Figure 46). Fundamentals are improving, with risks to Portugal's growth outlook now to the upside albeit both rating agencies note Portugal's relatively high debt as being a key credit challenge. In their last Analysis, Moody's indicated that "*Upward pressure on Portugal's Ba3 government bond rating will develop if (1) the authorities successfully bring the current external support program to an end while continuing to reduce the budget deficit; and (2) the economic recovery gathers speed so that government debt metrics are placed on a clear downward path*." Moody's rates Portugal Ba3 stable and we think it likely that it upgrades the sovereign by one notch to Ba2 on 9th May. For S&P, its BB rating carries a negative outlook, meaning an upgrade is more unlikely. However, we do see a good chance S&P's outlook will be revised to stable or even moved to positive with an upgrade perhaps later in the year.

Ireland — successfully auctioning bonds: Ireland has sold debt both via syndications and auctions in 2014 having successfully exited its Troika programme. We see scope for Moody's to upgrade the sovereign on 16 May given its Baa3 rating is on positive outlook and ongoing economic improvements.

Italy and Spain: Spain was recently upgraded by Fitch to BBB+ (25 April). Moody's also upgraded Spain to Baa2 (positive outlook) in February and as such, the S&P rating is the lowest (at BBB-) among the main rating agencies. Spain is on S&P's rating calendar on 23 May where an upgrade is our base case, and if this does not occur we expect the outlook to be moved to positive. For Italy, our economists have upgraded the growth outlook and the Renzi reform agenda represents the principal effort at addressing Italy's competitive concerns for some time. Moreover QE is likely to have a noticeable positive impact on Italian GDP growth. We therefore no longer expect downgrade pressure on the sovereign over the longer term and expect Italy's ratings to remain stable at current levels.

UK — economy gathering momentum: Given the strong performance of the UK economy, S&P will likely return its outlook on the UK's AAA rating back to stable in 2014. The next opportunity for this to occur is on 6 June. We also see the growing possibility that Moody's places the UK back onto positive outlook and ultimately upgrades the rating from Aa1 to Aaa.

Yield and Spread Forecast Commentary

Amitabh Arora
+1-212-723-6439
amitabh.arora@citi.com

US: Treasury yields moved lower in April. The market was most likely positioned short heading into nonfarm payrolls on April 4, and the below-estimate print forced shorts to cover. Payrolls sparked a multi-week rally, which was compounded by tensions in Ukraine. Additionally, Yellen's comments and FOMC minutes supported treasuries, with 10y yields falling to 2.62%, their lowest level since early March. The 5s30s curve flattened by 8 bp as the long end outperformed.

Alessandro Tentori
+44-20-7986-9224
alessandro.tentori@citi.com

Core Europe: As well as expecting cuts to the refi and deposit rate in June, Citi now forecasts the ECB to adopt a QE programme in H2 2014. The yield and spreads impact on EGBs is perhaps less obvious than might first appear given the heterogeneous market structure, especially in terms of differences in net supply, duration and floating amounts relative to total debt across sovereigns. Overall, we expect QE to reinforce pre-established trends in our lower-for-longer scenario for core rates. Taking into account our new expectation, we therefore now expect Bunds to range trade around 1.6% for much of 2014 with a flatter profile for 2s10s. Relatedly, we expect 10yr OAT-Bund spreads also to remain low, averaging 40bp later in Q4.

EMU Periphery: Appetite for EMU peripheral bonds remains strong from both domestics and non-domestic participants and we see few reasons for a change in sentiment. The extent of the rally is impressive, with 10yr BTPs now around 163bp (from an average of 220bp in Q4 2013). ECB QE would clearly be supportive for the ongoing tightening tone, but given difference in net supply this year (-€6bn for Italy, +€36bn for Spain) we think BTPs are likely to outperform later in the year. By year-end, we forecast Q4 10yr BTP-Bund spreads to average 100bp and 10yr Bono-spreads to average 120bp.

Jamie Searle
+44-20 7986 9493
jamie.searle@citi.com

UK: The front-end of the gilt curve is coming under increasing pressure as the data continues to show a broadening recovery, dwindling spare capacity and signs that wage growth is picking up. The MPC is likely to remain on hold until the recovery is more firmly entrenched, but Citi continues to expect the first rate hike later this year (November) with a steady hiking cycle up to 2.5% by end-2015 before pausing. This should drive gilt yields gradually higher over the forecast period. The risk to this view stems mainly from geopolitical concerns which could prompt bouts of flight-to-quality. On a cross-market basis, we see scope for gilts to underperform, especially vs Bunds. The spread has already widened significantly, but we think it could reach around 170bp later this year as the ECB look to add further stimulus just as the MPC start to tighten.

Takeki Fukushima
+813-627-07256
takeki.fukushima@citi.com

Japan: We expect a continued range-bound market with decline in volatility. Bullish comments by BoJ officials on inflation seem to have pushed back market expectations on additional easing. On the other hand, media reports that BoJ is likely to revise down their growth prediction on FY2013 as well as FY2014. Rates market is likely to be range-bound due to the mixed outcome of CPI and real growth. We keep our views that the 10y yield is likely to test 50bp in Q2 as the market gradually focuses more on growth rather than the temporary price increase. Meanwhile, we also keep our view that yields are likely to bottom out after the additional easing by the BoJ on the back of stronger equities and a weaker yen.

Figure 47. Interest Rate and Bond Market Forecasts as of 30 April 2014

	Quarterly Average							
	Current	2Q 14F	3Q 14F	4Q 14F	1Q 15F	2Q 15F	3Q 15F	4Q 15F
US								
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.00
3-Month Libor	0.22	0.20	0.20	0.20	0.35	0.65	0.85	1.05
2 Year Treasury Yield	0.43	0.50	0.70	0.85	1.05	1.25	1.50	1.70
5 Year Treasury Yield	1.74	1.85	2.10	2.35	2.50	2.65	2.75	2.85
10 Year Treasury Yield	2.70	2.85	3.05	3.25	3.40	3.45	3.50	3.55
30 Year Treasury Yield	3.46	3.55	3.65	3.80	3.85	3.90	3.90	3.90
2-10 Year Treasury Curve	227	235	235	240	235	220	200	185
2 Year Swap Spread (Swap Less Govt), bp	11	12	12	12	12	12	12	12
10 Year Swap Spread (Swap Less Govt), bp	11	13	15	15	15	15	15	15
30 Year Swap Spread (Swap Less Govt), bp	-1	-3	-5	-5	-5	-5	-5	-5
30 Year Mortgage Yield	4.4	4.55	4.80	5.10	5.20	5.40	5.45	5.55
10 Year Breakeven Inflation	220	220	225	230	235	235	235	235
Euro Area								
Policy Rate End Quarter	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Overnight Rate (EONIA)	0.33	0.25	0.00	0.00	0.00	0.00	0.00	0.00
3-Month (EURIBOR)	0.32	0.20	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Schatz Yield	0.17	0.15	0.10	0.05	0.05	0.05	0.05	0.05
5 Year Bobl Yield	0.59	0.60	0.60	0.50	0.50	0.50	0.60	0.60
10 Year Bund Yield	1.50	1.60	1.60	1.60	1.70	1.70	1.80	1.80
30 Year Bund Yield	2.37	2.40	2.35	2.35	2.45	2.45	2.55	2.55
2-10 Year Bund Curve	133	145	150	155	165	165	175	175
10 Year BTP-Bund Spread	163	160	140	100	100	100	100	100
10 Year Bono-Bund Spread	156	165	150	120	102	120	120	120
2 Year BTP-Schatz Spread	61	60	50	40	40	40	40	40
2 Year Bono Schatz Spread	55	60	50	45	45	45	45	45
10 Year OAT-Bund Spread	50	50	50	40	40	40	40	40
10 Year Swap Spread (Swap Less Govt.), bp	23	25	20	20	20	20	20	20
10 Year Breakeven Inflation	140	135	140	140	145	145	150	150
Japan								
Policy Rate End Quarter	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.14	0.15	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Treasury Yield	0.09	0.05	0.10	0.15	0.20	0.20	0.20	0.20
5 Year Treasury Yield	0.19	0.15	0.20	0.30	0.35	0.40	0.45	0.40
10 Year Treasury Yield	0.61	0.55	0.70	0.85	0.95	1.05	1.15	1.10
30 Year Treasury Yield	1.70	1.65	1.75	1.85	1.90	1.95	2.00	2.00
2-10 Year Treasury Curve	52	50	60	70	75	85	95	90
2 Year Swap Spread (Swap Less Govt.), bp	11	10	12	14	15	15	15	15
10 Year Swap Spread (Swap Less Govt.), bp	18	15	20	22	25	25	30	25
10 Year Breakeven Inflation	134	115	100	100	110	115	115	115
UK								
Policy Rate End Quarter	0.50	0.50	0.50	0.75	1.25	1.50	2.00	2.50
3-Month Libor	0.53	0.55	0.55	1.00	1.55	1.70	2.10	2.55
2 Year Treasury Yield	0.70	0.85	1.30	1.50	1.80	2.10	2.40	2.60
5 Year Treasury Yield	1.93	2.15	2.45	2.70	2.85	2.90	3.05	3.10
10 Year Treasury Yield	2.69	2.85	3.20	3.30	3.50	3.55	3.65	3.70
30 Year Treasury Yield	3.45	3.55	3.70	3.75	3.85	3.90	3.95	4.00
2-10 Year Treasury Curve	199	200	190	180	170	145	125	110
10 Year Swap Spread (Swap Less Govt.), bp	7	10	15	15	20	20	25	25
10 Year Breakeven Inflation	310	315	320	325	340	345	350	350
Australia								
Policy Rate End Quarter	2.50	2.50	2.50	2.50	2.75	3.25	3.75	4.00
3-Month Libor	2.70	2.60	2.60	2.75	2.95	3.45	4.00	4.25
2 Year Treasury Yield	2.74	2.80	2.95	3.15	3.50	3.70	4.00	4.05
5 Year Treasury Yield	3.30	3.75	3.95	4.10	4.35	4.45	4.65	4.60
10 Year Treasury Yield	3.95	4.40	4.50	4.60	4.70	4.75	4.95	4.95
2-10 Year Treasury Curve	121	160	155	145	120	105	95	90
10 Year Swap Spread (Swap Less Govt.), bp	29	35	40	40	45	45	50	50

Source: Citi Research

Commodities Market Outlook

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

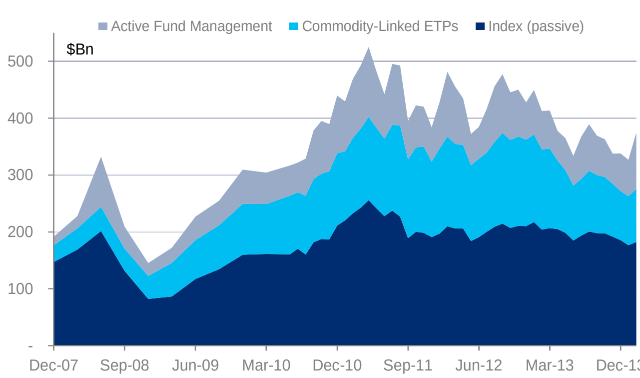
Edward L Morse
(1-212) 723 3871
ed.morse@citi.com

Commodities are measurably outperforming equities and bonds year-to-date — against prior fundamental expectations for many underliers — taking a pole position across macro asset classes for the first time since 1H'08. It is also clear that investors are again beginning to take commodities seriously as a portfolio diversifier for all of the reasons that commodities rose as a substantial part of investor portfolios during the first half of the last decade. The asset class is again negatively correlating with equities; they have lost their tight negative correlation with the USD; differentiated supply responses are facilitating long-short strategies; seasonality is facilitating seasonal structures beyond traditional natural gas; and in a geopolitically and weather sensitive world, tail-risk events are more often driving returns.

After a record c$50Bn in passive investment net redemptions during 2013, markets have returned more than $6bn in new monies into the sector from January through mid-April. Retail and institutional commodity assets under management also grew 11% in the first two months of the year to nearly c$375Bn. While c$150Bn shy of the recent AUM peak exactly two years ago in April 2011 (during the height of the Libyan civil war and MENA spring), the data for both flows and market capitalization suggest some stabilization for prices after a particularly bearish 2013.

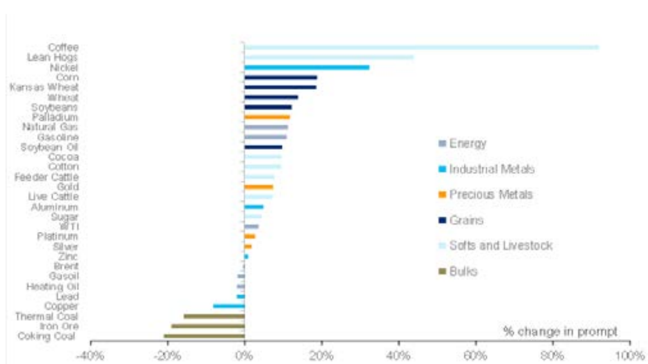
Even so, relatively slack demand for commodities is still accompanying tepid global and problematic Chinese economic growth for the rest of 2014 and into 2015. The slowdown in emerging markets, where GDP growth is particularly commodity-intensive, is also problematic as are the implications for commodity demand in such commodity importing countries as China, India, and Turkey, where there are demand headwinds associated with depreciating currencies and price liberalization leading to a phasing out of fiscally costly subsidies. While Chinese demand might have hit a nadir during 1Q/early 2Q and could improve for a broad array of industrial and agriculture commodities during 2H 14, we still expect price cheer to be generally capped in a lower range environment.

Figure 48. Retail and Institutional Commodities AUM



Source: Citi Research estimates

Figure 49. Year-to-Date Commodity Price Return*



Source: Bloomberg, Citi Research, *at 25 April

Energy

Oil markets are currently trading the seasonal low point for global crude demand but the Russia-Ukraine crisis is now at the top of a long list of geopolitical risks (i.e. Libya, South Sudan, Nigeria and Iran) that are supporting prices even as the physical market reflects seasonal softness. Russian oil exports have not been disrupted, but investor buying of waterborne Brent has picked up markedly in recent weeks with hedge fund net length 33% higher since the start of April despite specs

seasonally preferring to stay shorter during Q2. The Ukraine crisis continues to escalate, with the market starting to become concerned that sanctions on energy exports could be a real possibility. Bottoming refinery runs in Europe, the FSU and Asia and jetty maintenance in the North Sea which stops Forties cargoes heading East are doing little to bring down Brent flat price, which has been trading in mid-April around $110/bbl, up from the Q1 average of $108/bbl. Citi's bearish Q2 fundamental view is however playing out in physical markets, with the May-June Brent spread expiring in carry and physical crude differentials weakening. But flat price remains a different animal, one dominated by geopolitics and headlines for now. Beyond Ukraine, supply disappointments in recent weeks have come from Libya — where a deal to restore oil exports looks to be falling apart; Kazakhstan — where the massive Kashagan field is now delayed at least until 2016 and possibly beyond; South Sudan and Nigeria where violence is increasing along with attacks on oil infrastructure.

European gas fundamentals remain exceptionally bearish and NBP prices may still need to drop to coal-to-gas switching levels of 40-42p/therm to remove excess supply, but the Black Sea crisis is helping support prices and physical disruptions remain a possibility. Storage levels are now at a 21-bcm y/y (117%) surplus as weak demand, robust Norwegian and Russian supply and "panic stocking" has bloated inventories. A potential cut-off of Russian gas is the big driver of prices, which are very sensitive to news flow, and the NBP prompt price has twice jumped 10% in March-April before continuing its downtrend. Gazprom is pushing Ukraine to pay its gas debt or risk a cut-off, yet flows from Russia to Ukraine remain healthy and aid packages for Ukraine are being discussed. Summer gas needs could be met if there was a short-term stoppage of Russian flows, but the real issue would be a cut-off in winter due to a prolonged stoppage, yet Citi sees this as unlikely due to the significant costs involved for all parties with Europe and Russia now locked into a new relationship paradigm of 'Mutually Assured Destitution.'

The arrival of spring has not changed the US supply-demand outlook, where inventories remain low and the supply-demand balance appears to be tight, giving prices a lift in the last few weeks. Recent weekly gas storage injection figures came out largely lower than market expectation likely due to (1) supply disappointment; (2) demand staying more robust than expected and (3) replenishment of "cushion" or "base" gas in storage fields. (1) Production has not surged as expected as producers may still be working through production problems this past winter. (2) Coal delivery problems and low regional prices making gas power plants competitive boosted gas-fired generation, pushing up gas demand even though demand should be cut for gas to be redirected to refill storage. (3) The replenishment of "cushion" gas might have taken place as well because very cold winter in parts of the country likely caused storage field operators to withdraw gas in storage fields that are supposed to provide pressure instead of being withdrawn. In most cases, this cushion gas stays in the field but above-ground consumption was so strong that this gas was likely taken out to meet demand. Looking ahead, the end-Oct'14 storage remains in the 3.4-Tcf neighborhood, ~0.4-Tcf below the 5-year average, giving support to prices.

Globally LNG prices are expected to remain in the high-$14/MMBtu from April to June and in the mid-$15/MMBtu from July to September. Most Japanese buyers seemed to have filled their demand up to early June, reducing the appetite for more purchases until prices come down more. This came about despite the increasing likelihood that no nuclear reactors in Japan would restart this summer, as no power companies included nuclear power in their summer electricity supply-demand outlooks submitted to the country's Ministry of Economy, Trade and Industry. In addition, the new Papua New Guinea LNG project is proceeding ahead of schedule,

with a likely in-service date in mid-2014 rather than later, which should increase LNG supply in Asia. Longer term, while Canada has approved more LNG projects, other approved projects have struggled to move ahead due to tax uncertainty, negotiations with First Nations and protracted pricing discussions between producers and consumers. However, the prospect looks brighter for Petronas' Northwest LNG, where FID could take place in 2015.

Metals

A degree of optimism has returned to the base metals space in recent weeks. Copper has picked up from March lows, supported by better than expect Chinese refined copper imports for the month, and a pick-up in Chinese copper product fabrication rates in the same month, driven perhaps by the first major China Grid Corporation tender hitting the market in March. Tightness has been a key feature of the Chinese copper market in recent months, with the forward SHFE copper pricing structure moving into significant backwardation at the end of 1Q, partly reflecting the impact of domestic refiners preferring to deliver metal into the Chinese bonded warehouse network than into the domestic onshore market. Indeed, in that time, bonded copper inventory levels were reportedly as high as 850,000 MT, though we now understand levels have subsequently dropped as domestic onshore tightness has been drawing metal back on shore. Given that the largest Grid Corporation tender of the year is being placed in July, plus the government introducing modest targeted stimulus packages for transport infrastructure and economic house building, we remain moderately constructive towards copper, with prices now expected to average near $6,800/t for the year.

The stand-out performer remains Nickel, with LME 3-month prices reaching $18,600/t in trading on April 24th, 34% up on levels at the start of the year. We continue to believe there is more short-term upside for nickel prices, with CTAs, having reversed shorts during March, putting on length. Consumer support has also been clearly apparent as nickel prices accelerated through April, with stainless steel stockists in particular rushing to book more and more stainless steel to secure metal before the full impact of rising nickel prices impacts stainless steel costs via the alloy surcharge pricing mechanism. Indeed, ferronickel producers are now reporting being sold out well into June as stainless mills up melt rates to meet stock demand, while stainless mills have increasingly being booking full plate nickel cathode over the last month, very much the material of last resort for most consumers. We now expect to see prices push well above $19,000/MT in the short term on combined investor and consumer momentum, with trading levels projected to scale north of $20,000/MT during 2H 14.

Bulks

A seasonal pickup in demand, particularly from the real estate sector, has boosted the Chinese steel and iron ore markets. However, we expect the impact on the iron ore market to be short-lived, with prices falling to $105 by the end of June. Chinese domestic iron ore mines which had delayed resuming production after the winter due to low prices are now coming back online. Exports from the big three Australian miners are set to increase significantly, and volumes out of Brazil are moving higher, following normal seasonal patterns. On the demand side, the onset of summer will see a return of negative seasonal factors and we do not expect improvement in underlying demand to be felt until August or September.

Thermal coal prices have been range-bound over the past month. We do not anticipate a major move within the next few months, but forecast prices to ease somewhat further. Miners in Australia continue to increase volumes in order to reduce unit costs, the Indonesian government's greater enforcement efforts are

expected to have limited impact on exports, and normal exports have resumed in Colombia and South Africa. On the demand side, India and China are key and while we expect better demand from both in the latter part of the year, import demand over the next few months should remain subdued.

Grains

Row crop prices have rallied c15% year-to-date (through late April), measurably outperforming broad commodity returns of c9% and US equity returns of c2%. But these staple cereals are poised to underperform in 2H'14. Geopolitical heat in the Black Sea region, weather risk premiums, robust US export sales and tighter balances can keep corn and soybean prices supported near current levels this quarter. But if US growing conditions are normal, a heavy new-crop outlook should weigh on CBOT prices by July and more sharply during the Northern Hemisphere harvest in 4Q. For now, we continue to see about 20% downside for corn and soybean prices (versus the curve) during the Northern Hemisphere fall season. US Department of Agriculture planted acreage surveys for both corn and soybeans are likely to be revised higher in June — further buttressing the outlook for a bumper harvest whereby the US remains the global 'bread basket.' Our model values suggest US corn sowing can get closer to 92.5-mn acres from the current 91.7-mn figure and for record soybean area of 81.5-mn acres to hit 82-mn. The agency survey for 2014 prospective plantings was conducted in early March. But given sustained price strength for the row crops and the fact that planting is off to a late start this year in affinity to 2013, more marginal field area might be utilized, especially when new-crop corn is pricing at USd500/bu as the curve has flattened.

As such, 2014/15 corn outlook appears bearish assuming near-normal weather. Dec 1 peak US inventories are likely to scale 11-bn bushels to an all-time high despite retrenchment to old-crop carryout and even if penciling-in strong Sep-Nov use of slightly more than 4-bn bushels. Interestingly, exactly a year ago at the end of April 2013, US prices (both flat price and deferred new-crop) surged to limit-up levels given an overly wet and cold spring sowing season and very slow planting progress. There were even concerns that persisted through much of 2Q'13 that corn yields would be 'unrecoverable.' But US farmers and technology proved that this was not the case, harvesting a record domestic crop and posting near-trend yields just shy of 159-bu/acre. Indeed, it was shown planting can catch-up quite quickly and we anticipate a pick-up in 2014 plantings in May. The 2014/15 ending stock outlook of 1.8-bn bu+ also implies a large inventory overhang to buffer from demand shocks as feed, export and ethanol use are all expected to remain stable. New-crop soybean carryout appears the opposite of old-crop; expected to more than double year/year to nearly 300-mn bushels while Brazil continues to ramp-up acres and provide export competition for the US — which should pressure prices on deferred parts of the curve as implied stocks-to-use more than doubles to 8.5%.

Figure 50. Commodity Price Forecast Table

		Point Prices																			
		0-3M	6-12M		Q3 2013	Q4 2013	Q1 2014	Q2 2014E	Q3 2014E	Q4 2014E	Q1 2015E	Q2 2015E	Q3 2015E	Q4 2015E	2012	2013	2014E	2015E	2016E	2017E	2018E
Energy				**5Y Cyclical**																	
NYMEX WTI	USD/bbl	98.0	96.0	81.0	108.0	97.6	98.0	98.0	102.0	90.0	93.0	86.0	92.0	84.0	94.1	98.0	97.0	88.8	83.0	78.0	80.0
ICE Brent	USD/bbl	103.0	102.5	85.0	112.0	109.3	108.0	103.0	106.0	99.0	97.0	93.0	97.0	93.0	111.7	108.7	104.0	95.0	90.0	85.0	85.0
Henry Hub Natural Gas	USD/MMBtu	5.00	4.90	5.50	3.55	3.85	5.20	4.90	4.90	4.80	4.50	4.40	4.50	4.60	2.75	3.73	5.00	4.50	4.90	4.90	5.50
Base Metals				**LT Price**																	
LME Aluminum	USD/MT	1,770	1,820	2,200	1,827	1,815	1,752	1,740	1,780	1,800	1,830	1,860	1,890	1,900	2,049	1,888	1,770	1,870	1,950	2,100	2,200
LME Copper	USD/MT	6,650	6,800	6,190	7,096	7,161	7,005	6,650	6,700	6,800	6,800	7,000	7,200	7,500	7,945	7,352	6,785	7,125	7,700	8,000	8,200
LME Lead	USD/MT	2,100	2,300	2,200	2,116	2,134	2,127	2,050	2,150	2,250	2,350	2,100	2,200	2,370	2,072	2,158	2,145	2,255	2,350	2,400	2,360
LME Nickel	USD/MT	17,200	20,000	21,000	13,996	13,980	14,693	16,500	17,450	17,800	20,000	20,500	22,000	23,500	17,592	15,105	16,610	21,500	24,500	26,000	25,000
LME Tin	USD/MT	23,000	24,500	20,000	21,284	22,951	22,622	22,900	23,000	24,000	25,000	24,000	23,000	25,000	21,108	22,340	23,130	24,250	25,000	24,000	23,000
LME Zinc	USD/MT	2,040	2,130	2,100	1,896	1,932	2,027	2,010	2,050	2,100	2,150	2,200	2,250	2,300	1,963	1,940	2,045	2,225	2,300	2,350	2,320
Precious Metals				**LT Price**																	
COMEX Gold	USD/T. oz	1,320	1,360	1,050	1,330	1,274	1,297	1,310	1,330	1,340	1,340	1,350	1,360	1,400	1,669	1,416	1,320	1,365	1,380	1,400	1,420
Silver	USD/T. oz	20.6	21.4	16.5	21.5	20.8	20.5	20.4	20.8	21.0	21.5	21.9	22.4	23.2	31.2	24.0	20.7	22.3	22.5	23.0	23.1
Platinum	USD/T. oz	1,470	1,525	1,763	1,456	1,397	1,428	1,445	1,500	1,525	1,525	1,565	1,640	1,675	1,552	1,490	1,475	1,600	1,710	1,800	1,960
Palladium	USD/T. oz	820	860	780	729	725	745	800	830	850	875	900	900	925	645	728	805	900	935	980	980
Bulk Commodities				**5Y Cyclical**																	
Hard Coking Coal (Spot)	USD/MT	120	130	200	143	142	122	117	130	135	145	150	155	160	191	148	130	153	180	190	200
Thermal Coal Asia (NEWC)	USD/MT	75	80	90	77	82	79	72	72	80	88	84	82	85	94	84	76	85	85	90	100
Iron Ore Spot (TSI)	USD/MT	105	100	81	133	135	120	110	102	100	98	92	85	85	128	135	108	90	80	83	85
Agriculture																					
CBOT Corn	USd/bu	470	390	N/A	512	430	450	470	440	380	420	450	505	505	695	578	435	470	515	N/A	N/A
CBOT Wheat	USd/bu	650	655	N/A	650	655	616	650	655	655	650	640	635	635	750	684	645	640	615	N/A	N/A
CBOT Soybeans	USd/bu	1,450	1,000	N/A	1,405	1,304	1,355	1,425	1,300	1,075	1,050	1,050	1,000	1,100	1,465	1,406	1,290	1,050	1,075	N/A	N/A
CBOT Rice	USD/cwt	15.4	15.3	N/A	15.6	15.5	15.5	15.3	15.4	15.0	14.4	14.2	14.1	14.1	14.9	15.5	15.3	14.2	N/A	N/A	N/A
NYB-ICE Cotton	USd/lb	90.0	78.0	N/A	85.6	80.3	88.0	90.0	85.0	75.0	75.0	75.0	75.0	75.0	80.0	83.3	85.0	75.0	N/A	N/A	N/A
Sugar#11	USd/lb	17.0	18.0	N/A	16.7	17.7	16.5	18.0	18.0	18.0	18.5	18.5	18.5	18.5	21.6	17.5	17.6	18.5	N/A	N/A	N/A
ICE Coffee	USd/lb	180	200	N/A	118	110	152	185	200	200	200	200	200	200	175	126	180	200	N/A	N/A	N/A
ICE Cocoa	USD/MT	3,200	3,300	N/A	2,420	2,706	2,880	3,100	3,300	3,300	3,400	3,400	3,500	3,300	2,348	2,405	3,145	3,400	N/A	N/A	N/A

Source: Citi Research, *subject to revision; same published in the 2Q 2014 Commodities Outlook (Commodities on the Move) – Citigroup: 13 April 2014.

Notes

Notes

Appendix A-1

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