

Euro Economics Weekly

ECB Is Likely to Turn More Cautious

- The ECB is unlikely to change policy stance at the February Governing Council meeting in our view. But we expect the tone of the press statement to turn more cautious on the economic outlook and more relaxed on the outlook for inflation, reflecting the recent increase in some money market rates and the appreciation of trade-weighted euro.
- In our view, the ECB is unlikely to announce another round of 3Y LTROs to offset the ongoing reduction in excess liquidity or to provide guidance on a future path of interest rates to prevent a premature tightening in monetary conditions. We expect that the ECB will reduce rates – cutting the main refinancing rate by 25bp to 0.5% in 2Q. We expect a second refi rate cut in the second half of 2013 and, at that stage, there is also a decent chance that the ECB will reduce the deposit rate into negative territory (Jürgen Michels, see page 2).

Jürgen Michels

+44-20-7986-3294

juergen.michels@citi.com

Giada Giani

+44-20-7986-3281

giada.giani@citi.com

Guillaume Menuet

+44-20-7986-1314

guillaume.menuet@citi.com

Michael Saunders

+44-20-7986-3299

michael.saunders@citi.com

Ebrahim Rahbari

+44-20-7986-6522

ebrahim.rahbari@citi.com

Ann O'Kelly

+44-20-7986-3297

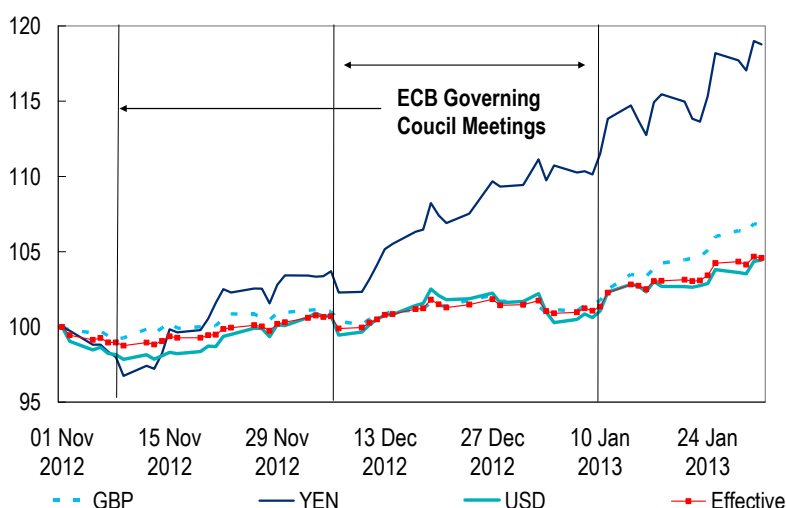
ann.okelly@citi.com

Figure 1. Citi Market Forecasts

	\$/€	Euro Repo	10-yr Bunds	£/€	U.K. Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vs Bunds
1Q 13	1.35	0.75	1.55	0.84	0.50	36	8.67	0.75	7.47	2.30	1.24	0.00	-95
1Q 14	1.31	0.25	1.25	0.81	0.50	41	8.46	0.75	7.31	2.35	1.24	0.00	-81

Source: Citi Research

Figure 2. Effective and Bilateral Exchange Rates (Nov 1 = 100), 1 Nov 2012–31 Jan 2013



Sources: ECB and Citi Research

For all distribution enquiries regarding Citi Economics research, including access via Citi websites and via third party distribution channels, please contact michael.saunders@citi.com or jan.maguire@citi.com

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

Citi Research is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

ECB Is Likely to Turn More Cautious

ECB likely to leave rates unchanged but to change its wording compared to January

The ECB is unlikely to change policy stance at the February Governing Council meeting, but the tone of the press statement is very likely to turn more cautious on the economic outlook and more relaxed on the outlook for inflation, reflecting the recent increase in some money market rates and the appreciation of trade-weighted euro in our view. While euro area sentiment indices continued to improve in January, the country split shows that sentiment in some periphery countries is deteriorating again. Furthermore, the Bank Lending Survey (BLS) provides little evidence that the “positive contagion” of improving financing conditions of periphery country sovereigns and banks is feeding through to real economic activity. As in the previous months, we believe the press statement will probably strongly call on policy makers to go ahead with fiscal consolidation, the implementation of structural reforms and to improve the governance of the monetary union.

Economic Indicators

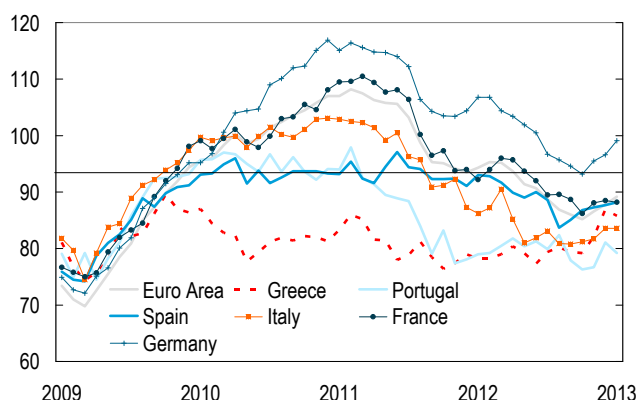
Area-wide PMI readings continue to increase, but Germany was main source of improvement

The euro area composite PMI (flash estimates) and the economic confidence readings (ESI) continued their upward trend in January, beating consensus expectations again and showing the highest readings since June and March 2012 respectively. However, the country split is more mixed than in previous months. In the ESI only Germany showed a strong gain in January, Spain was just slightly up and other countries' readings were either flat or falling (see Figure 3). The available split of the manufacturing PMI (up by 1.8 pp MM to 47.9) also shows that the increase was mainly led by Germany, but manufacturing companies in most other countries – with the exception of France – improved in January as well, probably reflecting increasing external demand.¹

Unemployment remains high and inflation moderates further

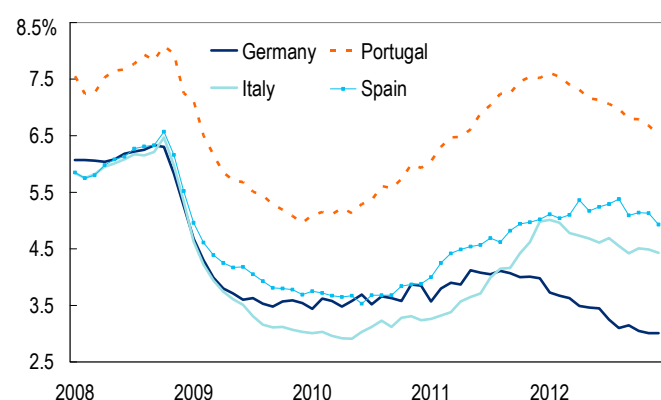
While there was a small downward revision in the unemployment rate for November (from 11.8% to 11.7%) the December data do not show a relaxation of the labor market situation. Inflation unexpectedly declined from 2.2% YY in December to 2.0% YY in January, suggesting that the downward trend in inflation continues, which leaves room to reduce interest rates.

Figure 3. Euro Area Countries – Economic Confidence, 2009–Jan 2013



Sources: Haver and Citi Research

Figure 4. Euro Area Countries – Lending Rates To Companies, all maturities, 2008–Dec 2012



Sources: Haver and Citi Research

¹ See [Global Export Bounce: Greece, Ireland & Spain Set to Outperform](#), Euro Economics Weekly, Guillaume Menuet, 25 January 2013

Nowotny expects positive contagion to feed through to real economy.

Is “positive contagion” feeding through into the real economy

Recently the Austrian Governor Ewald Nowotny said that he is confident that the improvement in financial market indicators will feed through into a recovery of the euro area economy, supporting ECB President Mario Draghi's theory of a positive contagion. In our view, there are huge question marks over such a feed-through.

Lending to firms and households continues to contract and the reduction in bank lending rates in the periphery countries was modest

The latest credit data show that there has been no recovery in lending to non-financial companies and households in December 2012. Indeed (although overstated by sales and securitization) the flow data show a contractions in loans to non-financial companies by €51.4 bn in December, while loans to households were down by €1.6bn MM. While rates for bank loans to companies in the periphery countries declined since summer 2012, in contrast to the narrowing of the gap between sovereign bond yields, the tightening in the spreads between lending rates in the periphery countries and Germany was only modest so far (see Figure 4).

BLS shows that lending conditions remain tight

The latest BLS provides little evidence that a decisive improvement in bank lending conditions is on its way. The January BLS shows that euro area banks on average continued to tighten their lending conditions in 4Q 2012 (according to our composite index). While tightening in lending conditions to companies with a net balance reading of 13% was somewhat smaller than the reported 15% in 4Q, the lending conditions for loans to households for house purchases got more difficult showing an increase in the net-tightening balance from 13% in 3Q to 18% in 4Q as did the conditions for consumer credit (from 3% in 3Q to 9% in 4Q). Looking forward, the BLS suggests that there will be also no substantial easing in bank lending conditions in 1Q 13.

BLS ad-hoc questions suggest that the sovereign debt problems have a smaller impact on bank lending conditions

The regular BLS questions do not show that the improvement in market conditions contributed to an easing of lending conditions. Indeed, among the factors for the tightening in lending conditions to companies the three components related to the banks' own balance sheet and funding situation at the margin contributed to tighter lending conditions.² However, according to an ad-hoc question, the impact of the sovereign debt crisis on banks' credit standards declined substantially from 3Q. In 4Q a net 1% of the banks reported that the direct exposure to sovereign debt had a negative contribution on their funding situation and 1% of banks even said that the development in the value of sovereign collateral helped to ease the lending conditions, compared to a net 7% and 10% respectively reporting a negative impact in 3Q. Only a net 2% of banks reported for 4Q that the direct exposure to sovereign debt contributed to a tightening in lending conditions to companies, compared to 7% in 3Q.

ECB study regards 3Y LTRO as favorable credit supply shock

We believe ECB President Draghi probably will -- rightly -- interpret these results as a significant stabilizing contribution on banking lending conditions from the OMT announcement. He might also refer to a recent ECB working paper which analyzed the impact of the 3Y LTROs on credit supply and economic activity.³ Based on panel VAR regressions using the bank lending surveys of 11 euro area countries, the study concludes that the 3Y LTROs “*can be interpreted as a favorable credit supply shock*” which has been “*successful in limiting the tightening of credit standards to households and firms due to liquidity risks and access to funding*”.

² The contributions to the net tightening of credit standards coming from banks' capital positions was 8% in 4Q compared with 7% in 3Q, coming from banks' access to market funding was 4% compared with 3% in 3Q and the contribution of banks' liquidity position became a neutral 0% after -2% (an easing) in 3Q.

³ See A non-standard monetary policy shock: the ECB's 3-year LTROs and the shift in credit supply (Working Paper No. 1508), by Matthieu Darracq Parias and Roberto A. De Santis, ECB, January 2013 (<http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1508.pdf>)

According to the simulations made in the study, the 3Y LTROs helped to improve the economic outlook. The authors estimate that the measures lift real GDP growth in a range between 0.5 to 0.8 percentage points in mid-2013 above the path without intervention and increases inflation (measured by the GDP deflator) by 0.15 to 0.25 pp above the baseline at the beginning of 2014.

ECB measures are not large enough to ease bank lending conditions

While the ECB working paper and the change in the outcome to the ad-hoc questions suggest that the ECB's measures – both the LTRO and the announcement of the OMT – helped to prevent a further tightening in lending conditions, the measures have not been able to lead to an easing in lending conditions so far. Note, that according to another ad-hoc question of the BLS *"banks continued to report a pronounced tightening of credit standards on loans to enterprises and households as a result of adjustment to new regulation and capital requirements"*. To us, this suggests that while the ECB's measures were highly important in preventing a sharp credit crunch and helped to limit the contraction in domestic demand, they are unlikely to fuel an increase in domestic demand.

Stronger euro and higher money market rates likely lead to downward revision in ECB staff projections

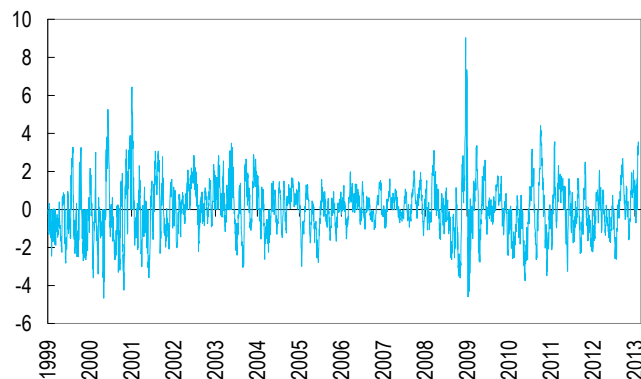
Since the 10 January ECB Governing Council meeting, the euro effective exchange rate has appreciated by around 3.5% and short term market rates have increased markedly. As the Eurosystem and ECB staff uses market rates for both factors in its macroeconomic projections, we believe this is likely to lead (everything else equal) to a further downward revision of the staff projections for GDP and inflation by a few tenths.⁴

ECB wording contributed to the strengthening of the euro

The strong appreciation of the euro against the Yen (which has a 7.2% weight in the euro effective exchange rate) plays a significant role for the increase in the effective nominal exchange rate. Note, that since Japan's 16 December general election, the euro strengthened by 13% compared to the Yen. However, the yen move, which reflects the likely more activist role of the Bank of Japan to fight deflation – criticized by Bundesbank President Jens Weidmann because he considers central bank independence at risk – is not the only source for euro strengthening. In our view, the ECB's wording on possible interest rate moves also had an impact on the exchange rate. Back in December 2012, the combination of the sharp cut in ECB staff growth projections, the fact that there was only a *"prevailing consensus"* for keeping rates unchanged and Mr. Draghi's comments that the ECB was operationally ready to introduce negative deposit rates spurred expectations of an ECB interest rate cut, leading to some weakening of the euro. In contrast, in January, Mr. Draghi saying that the Governing Council did not even discuss a rate cut and his talk of positive contagion, took away market expectations of lower rates and, in our view contributed to the euro strengthening (see Figure 2, frontpage).

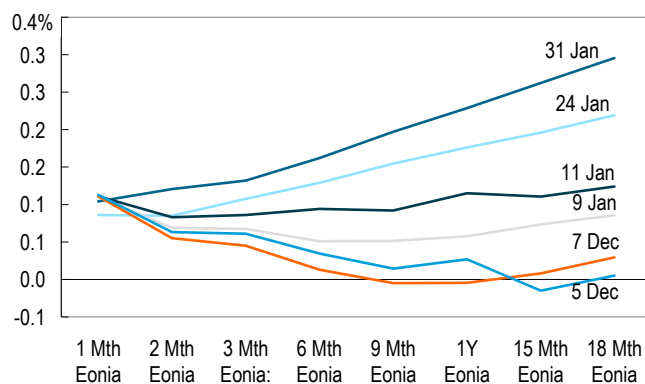
⁴ In its projections the staff assumes that "Bilateral exchange rates are assumed to remain unchanged over the projection horizon at the average levels prevailing in the two-week period ending on the cut-off date", which is normally around 2 weeks before the publication of the projections. On short-term rates, the ECB also uses market expectations, measured by the 3M EURIBOR, derived from futures rates.

Figure 5. Euro area -- Effective Exchange Rate (15 day Pct Change), 1999–Jan 31 2013



Sources: ECB and Citi Research

Figure 6. Euro Area – EONIA Forward Rates, Dec 2012–Jan 13



Sources: ECB and Citi Research

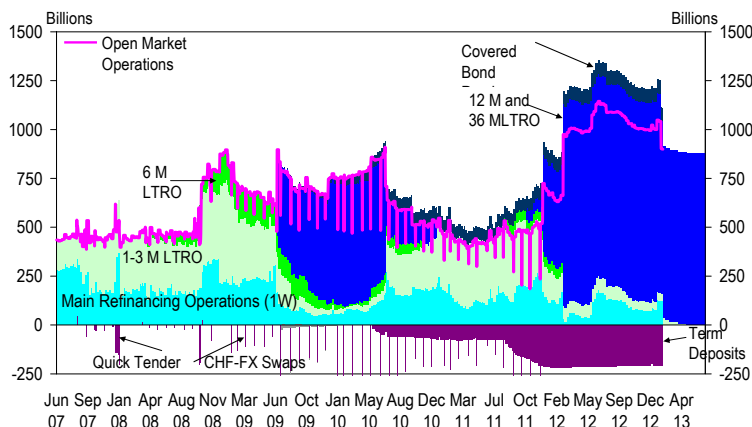
Appreciation of the euro is high by historical norms

Looking backwards, the move in the appreciation of the effective euro by around 3.5% in a 15 day period, which we experienced since the January ECB council meeting, is not a “normal” exchange rate move (see Figure 5). While there were several periods of an appreciation of more than 3% in the first years after the euro was introduced, such moves have been less common in recent years. While we do not expect that the ECB will make any comments in respect of preferred exchange rate levels, we think that President Draghi will emphasize even more the role of the exchange rate. In the January press conference he said that the exchange rate is “a very important element as far as growth and price stability are concerned, and we certainly use it as one of the elements in our economic assessment.”

Policy rate expectations and liquidity considerations behind recent money market moves

The change in the ECB’s tone on possible rate cuts has also had an impact on money market rates (see Figure 6). The increase in forward EONIA rates in the last two weeks also reflects the ability of banks to repay the 3Y LTRO loans from January 30 onwards. With the repayment of €137bn of LTRO funding, plus a reduction in the MRO funding by €1.2bn and the reduction in 3M LTRO funding by €2.5bn, ECB’s total amount of open market operations dropped by a significant €141bn this week (see Figure 7).

Figure 7. ECB Open Market Operations Components (EUR bn), 2007–Jun 2013

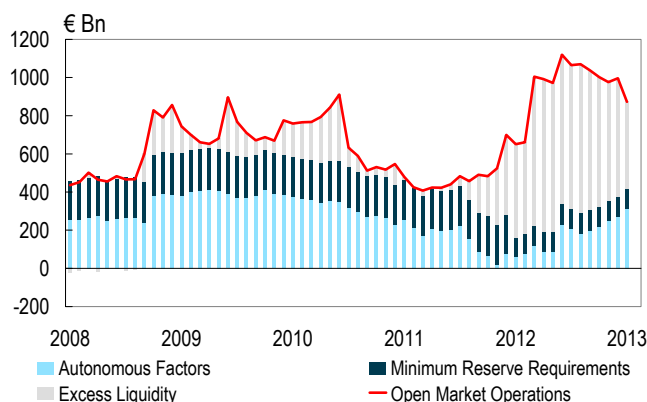


Source: Citi Research

Excess liquidity down by €164bn in January

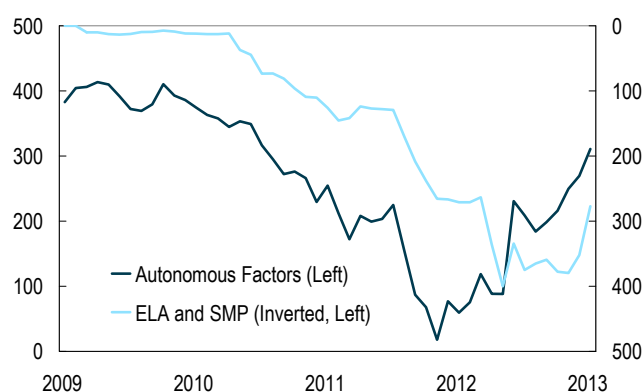
Compared to the end of December 2012, the open market operations were down by around €124bn. The fall in excess liquidity, looking at the end-of-month readings, which are distorted by short term distortions in the autonomous factors, was an even larger €164bn to around €456bn at 31 January. The fall in excess liquidity reflects the increase in the autonomous liquidity factors. This mainly reflects the reduction in the use of the ELA, through which national central banks provide extra liquidity in the system which leads to a decline in the autonomous liquidity factors.⁵ The Eurosystem SMP holdings were unchanged in January, but in the past (2011) led to a substantial reduction in the autonomous factors (see Figure 9). Note, that otherwise the autonomous factors are mainly determined by the need for liquidity to secure the cash circulation.

Figure 8. Euro Area — Open Market Operations and Excess Liquidity (EUR bn), 2008–Jan 2013



Sources: EcoWin and Citi Research

Figure 9. Euro Area -- Autonomous Liquidity Factor and Use of ELA and SMP, 2009–Jan 2013



Sources: Haver, National Central Banks and Citi Research

3Y LTRO repayment likely to be small in coming weeks

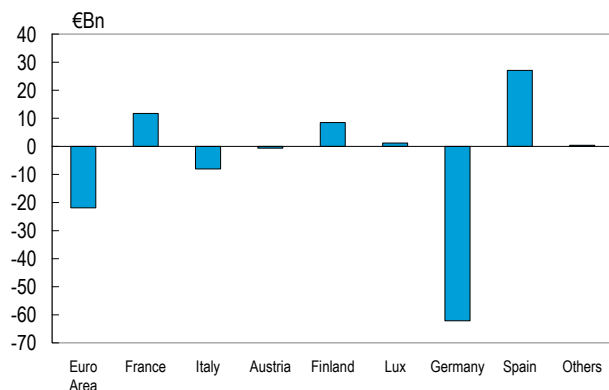
Looking forward, the 1 February announcement that only 27 banks want to repay in total €3.5bn of the first 3Y LTRO funding on February 6, suggests that the reduction of the open market operations and the subsequent reduction in excess liquidity is likely to be small until banks have the ability to repay the second 3Y LTRO from February 27 onwards. But as many banks have participated in both LTROs it is hard to say if they have already used the repayment option of the first LTRO to adjust their total liquidity requests from the ECB.

We continue to expect that banks with excess liquidity will repay 3Y LTROs

We continue to expect that the repayment of the 3Y LTROs will be mainly used by banks with excess liquidity (or that have the option to swap ECB funding into cheap market funding) as we do not expect that banks will shrink their balance sheets in order to repay the LTROs or to pay much higher funding costs compared to the ECB funding. In terms of the distribution of excess liquidity, there were some substantial moves between November and December 2012, with German banks recording a reduction in excess liquidity of €62bn MM to a still large €271bn while Spanish banks increased their excess liquidity holding by around €27bn to €57bn (see Figures 10 and 11). By itself, this is good news as it suggests a return of confidence in the Spanish banks. With the new data, which are only for the end of December and do not reflect moves in deposits or new issuance of Spanish banks in January, the report of El Pais, that Spanish banks repaid €44bn of LTRO funding looks much more plausible in our view.

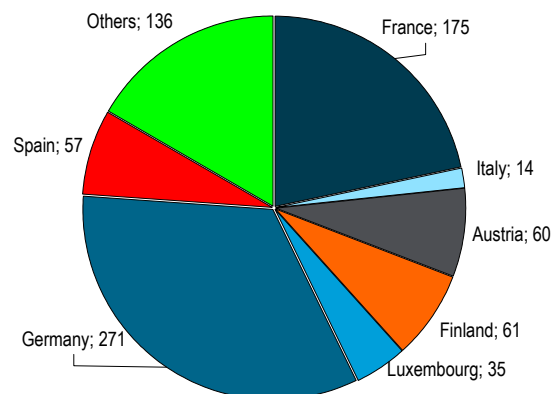
⁵ The reduction in ELA probably took place in Greece, where banks are now able to use Greek sovereign bonds as eligible collateral for the Eurosystem open market operations.

Figure 10. Euro Area Member Countries – Change in Excess Liquidity (EUR bn) between November and December 2012



Sources: Haver, National Central Banks and Citi Research

Figure 11. Euro Area Member Countries – Excess Liquidity, December 2012



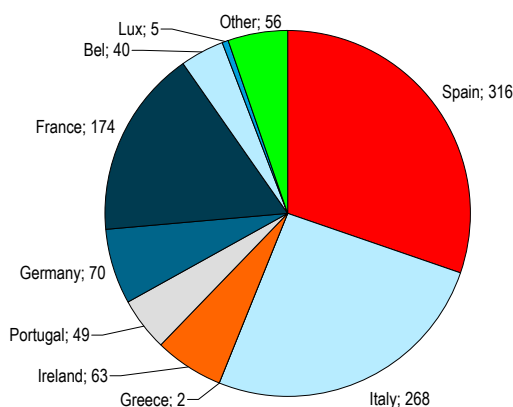
Sources: Haver, National Central Banks and Citi Research

Bank funding stress unlikely to disappear

With the nationalization of SNS Reaal on February 1, the private sector is already involved more than in previous bailouts as “shareholders and subordinated creditors will be expropriated”. Furthermore, Eurogroup chairman and Dutch Finance Minister Jeroen Dijsselbloem stated that “Legislation at the European level will have to ensure that in the future to the extent possible, the bill will be paid by private stakeholders.”⁶ We doubt that there will be an ongoing substantial improvement in the liquidity situation of periphery countries’ banks that would allow them to repay more of the large part of the LTRO funding they have obtained from the Eurosystem (see Figure 12). Taking all these factors into account, our forecast of a combined repayment of the 3Y LTROs in a range between €300bn to €350bn by the end of 1Q 2013 seems to be about right. This probably will lead to a reduction of excess liquidity to around €300bn. In our view this is still large enough to leave EONIA rates close to the deposit rate, which is currently 75bp below the main refinancing rate. Beyond 1Q we expect little change in excess liquidity, however with the possibility of future repayments, longer maturity money market rates might remain elevated (see Figure 13).

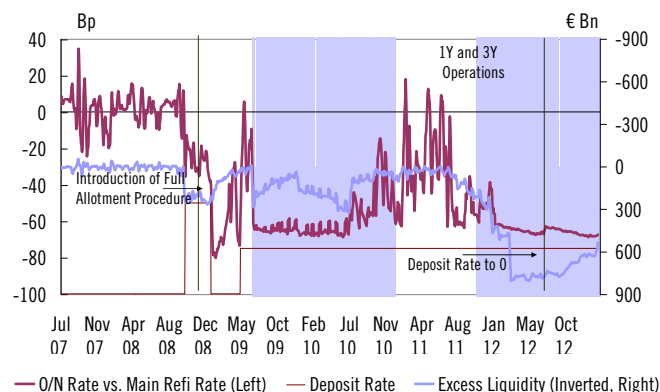
⁶ <http://www.government.nl/news/2013/02/01/state-of-the-netherlands-nationalises-sns-reaal.html>

Figure 12. Euro Area -- Euro Area Member Countries -- Use of the Eurosystem LTROs, December 2012



Sources: Haver, National Central Banks and Citi Research

Figure 13. Euro Area -- Excess Liquidity and EONIA Rates (5 day avg), 2007 Jan 13



Source: Citi Research

ECB unlikely to use 3Y LTROs or rate guidance to bring market rates down

As the ECB has no direct control on the amount of the outstanding liquidity – under the full allotment procedure banks determine the amount of funding – it can only influence the amount of liquidity by variations of the maturity (e.g. providing attractive term funding). Therefore, if the ECB wants to prevent upside pressure on rates from a reduction in excess liquidity, it would have to announce another round of 3Y LTROs. Unless there is another round of severe stress in the banking sector, such a move looks very unlikely to us, and we doubt that the ECB will announce another 3Y LTRO unless the OMT was activated. Otherwise the 3Y LTROs, which banks in Spain and Italy used substantially to buy government securities could be criticized as an indirect way to support periphery sovereign, bypassing the OMT programme – which comes under conditionality. As ECB Governing Council member Peter Praet argued recently, the ECB does also not regard guidance on the future path of interest rates as an appropriate tool for the ECB.⁷

We expect the next rate cut in 2Q and Draghi might open the door for it at the February meeting

To sum up, recent data suggest that the outlook for the euro area remains mixed and that medium inflation pressure is diminishing. In such an environment, the recent appreciation of the euro and the increase in money market rates should create a tightening in financing conditions. In order to reduce market pressure somewhat, we expect that ECB President Draghi in his February comments will open the door for future rate cuts again. We expect the ECB to cut the main refinancing rate by 25bp to 0.5% in 2Q and expect a second refi rate cut in the second half of 2013, and at that stage, there is also a decent chance that the ECB will reduce the deposit rate into negative territory. However, there is a large hurdle to cut the deposit rate. To go ahead with this move, the ECB probably has to remain confronted by upside pressure on the currency, ongoing fragmentation within the euro area and a substantial undershooting of the medium term inflation target of “below, but close to 2%”.

⁷ <http://www.ecb.europa.eu/press/key/date/2013/html/sp130129.en.html>

Key Economic Indicators (4 February – 8 February 2013)

During The Week		Forecast	Last
09:00	UK: Halifax House Prices, Jan		
Monday 4 February		Forecast	Last
08:00	Spain: Registered Unemployment, Jan	+200K	-59K
09:30	Euro Area: Sentix Investor Confidence, Feb	-3	-7
10:00	Euro Area: Industrial Producer Prices, Dec	-0.3% MM, 2.0% YY	-0.2% MM, 2.1% YY
16:30	Ireland: Exchequer Return, Jan		
Tuesday 5 February		Forecast	Last
07:00	Switzerland: Trade Balance, Dec		
08:30	Sweden: Services Production, Dec	-0.3% MM, 1.1% YY	1.8% MM, 0.5% YY
09:00	Euro Area: Services PMI, Jan	48.1	47.8
	Composite PMI, Jan	48.2	47.2
09:30	UK: Services PMI, Jan	49.0	48.9
10:00	Italy: HICP, Jan Flash	-2.2% MM, 2.2% YY	0.3% MM, 2.6% YY
10:00	Euro Area: Retail Sales, Dec	-0.3% MM	0.1% MM
11:00	Ireland: Industrial Production, Dec		
Wednesday 6 February		Forecast	Last
10:00	Euro Area: industrial Import Prices, Dec		
11:00	Germany: Incoming Orders, Dec	2.0% MM, 0.3% YY	-1.8% MM, -0.8% YY
Thursday 7 February		Forecast	Last
	EU: European Council on EU Multi-Annual Budget (Brussels)		
06:45	Switzerland: SECO Consumer Confidence, Jan		
07:45	France: Trade Balance, Dec		
08:00	Spain: Industrial Production, Dec	0.6% MM, -7.4% YY	-2.3% MM, -7.2% YY
08:30	Sweden: House Prices, Dec		
09:30	UK: Trade Balance – Goods & Services, Dec	£-3.2 Billion	£-3.5 Billion
09:30	UK: Industrial Production, Dec	0.1% MM, -2.8% YY	-1.9% MM, -2.4% YY
	Manufacturing Output, Dec	0.2% MM, -2.9% YY	-0.3% MM, -2.1% YY
11:00	Germany: Industrial Production, Dec	0.2% MM, -0.8% YY	0.2% MM, -3.0% YY
12:00	UK: MPC Outcome		
12:45	Euro Area: ECB Outcome (Press Conference at 13:30)		
Friday 8 February			
	EU: European Council continued		
06:45	Switzerland: Unemployment, Jan		
07:00	Sweden: Registered Unemployment Rate, Jan	5.0%	4.8%
07:00	Germany: Trade Balance, Dec	€14.5 Billion	€14.6 Billion
07:00	Germany: Insolvencies, Nov		
07:30	France: Bank of France Business Sentiment, Jan	93	95
07:45	France: Investment in Industry, Jan		
08:15	Switzerland: Retail Sales, Dec		
08:30	Netherlands: Industrial Production, Dec		
08:30	Sweden: Industrial Production, Dec	-2.2% MM, -3.0% YY	-1.3% MM, -4.3% YY
09:00	Norway: Manufacturing Production, Dec	0.1% MM	-0.1% MM
09:00	Italy: Industrial Production, Dec	-0.3% MM, -8.4% YY	-1.0% MM, -7.6% YY
09:30	UK: Construction Output, 4Q		
	Greece: Industrial Production, Dec		
	Greece: Consumer Prices, Jan		

Sources: National statistical offices, central banks and Citi Research

Economic Indicators

Euro Area

Feb 4 09:30 London Time	Sentix Investor Confidence, Feb	Forecast: -3.0	Prior: -7.0
	We look for a sixth, albeit smaller, uptick in the Sentix survey. Sentiment in financial markets has turned more positive since the start of the year, so much so that ECB President Draghi has begun to refer to “positive contagion”. Nevertheless, the rapid improvement in the expectations series since July is unlikely to be sustainable, with the sub-index already exceeding its 2009-11 highs, and will probably moderate. Turning to the current assessment, disappointing 4Q GDP estimates should also limit the extent of the probable gain.		
Feb 4 10:00 London Time	Industrial Producer Prices, Dec	Forecast: -0.3% MM, 2.0% YY	Prior: -0.2% MM, 2.1% YY
	The downward trend in the YY rate of producer prices is likely to continue. In addition to the impact of lower commodity prices, the slowdown in wage growth in the euro area on average is likely to contribute to a moderation in producer price trends.		
Feb 5 09:00 London Time	Services PMI, Jan Final Composite PMI, Jan Final	Forecast: 48.1 Forecast: 48.2	Prior: 47.8 Prior: 47.2
	With more non core-countries covered in the final PMI readings compared to the flash estimate, which is strongly influenced by Germany, we expect a downward revision of the flash estimate for the service sector by 0.2pp. However, both services and composite readings are likely to be up compared to the previous month, but remain below their long-term average by 1.1 standard deviations.		
Feb 5 10:00 London Time	Retail Sales, Dec	Forecast: -0.3% MM	Prior: +0.1% MM
	Following a small increase in November retail sales compared to the previous month, we expect a renewed decline in December. The fall in the retail PMI to the lowest reading since August suggests that the important Christmas sales were rather disappointing in the euro area.		
Germany			
Feb 6 11:00 London Time	Incoming Orders, Dec	Forecast: +2.0% MM, +0.3% YY	Prior: -1.8% MM, -0.8% YY
	The improvement in overall business confidence readings and the assessment of the order situation in particular points to an increase in orders in December. Orders from non-euro area countries (which dropped by 6.5% MM in November) are likely to rebound, while orders from euro area countries are likely to be down after two consecutive monthly gains. Domestic orders are likely to be flat after two months of gains. If our forecast is correct, orders increased by 1.3% QQ in 4Q.		
Feb 7 11:00 London Time	Industrial Production, Dec	Forecast: 0.2% MM, -0.8% YY	Prior: 0.2% MM, -3.0% YY
	With mixed weather conditions in December there is elevated uncertainty on industrial output. Overall we expect a small increase in IP, including construction, in December. However, in 4Q on average, we expect a contraction in output of 3.3% QQ, following a gain of 1.4% QQ in 3Q.		
Feb 8 07:00 London Time	Trade Balance, Dec	Forecast: €14.5 Billion	Prior: €14.6 Billion
	We expect a recovery in exports in December (+2.6% MM) after the drop in November. But a likely rebound in imports by 3.3% MM probably will leave the trade surplus roughly unchanged.		
France			
Feb 8 07:30 London Time	Bank of France Business Sentiment, Jan	Forecast: 93	Prior: 95
	Sentiment in France looks fragile. Although the composite INSEE survey was unchanged at 87 in January, the stable headline measure stemmed from a gain in service sector confidence, compensating for declines in all other sectors. Separately, the flash composite PMI recorded a 2.3-point drop in January, the largest fall in 15 months. We expect the BdF sentiment measure to have eased back a little to 93, unwinding half of the previous month’s gain. The reading would remain some 0.9 standard deviation below the long-term average of 102.		
Italy			
Feb 5 10:00 London Time	HICP, Jan Flash	Forecast: -2.2% MM, 2.2% YY	Prior: 0.3% MM, 2.6% YY
	January inflation is usually largely affected by one-off increases in administered prices/tariffs as well as by price declines during winter sales. Taking all these price changes into account together with a favourable base effect in the energy component, we estimate overall inflation may have dropped in January to 2.2% YY – lowest level since July 2011. We expect the downward trend in inflation to continue in coming months, to lead inflation below 2% by the summer.		
Feb 8 09:00 London Time	Industrial Production, Dec	Forecast: -0.3% MM, -8.4% YY	Prior: -1.0% MM, -7.6 YY
	Industrial output probably posted the fourth consecutive monthly decline in December, despite some minor improvements recorded by sentiment and survey-based indicators. Generalised weakness of trade flows in the euro area at the end of last year, together with ongoing domestic recession are behind the still very negative picture of the Italian manufacturing sector.		
Spain			
Feb 4 08:00 London Time	Registered Unemployment, Jan	Forecast: +200K	Prior: -59K
	After the unexpected large drop in unemployment in December – we think related to a one-off factor on the unemployment benefits entitlements – we expect the recent rising trend to have continued in January. Registered unemployed in seasonally adjusted terms likely rose by 1.2% MM, +58K, which we estimate corresponds to a larger increase in non-adjusted terms of +200k.		
Feb 7 08:00 London Time	Industrial Production, Dec	Forecast: 0.6% MM, -7.4% YY	Prior: -2.3% MM, -7.2 YY
	Industrial output may have grown slightly in December, after a very poor performance in the previous three months. Exports may have regained some strength at the end of the quarter, but domestic demand has accelerated its rate of contraction and this is likely to make the December rise in output a temporary one.		

Economic Indicators

Sweden

Feb 5 08:30 London Time	Service Production, Dec	Forecast: -0.3% MM, 1.1% YY	Prior: 1.8% MM, 0.5% YY
	Momentum in services production has been weakening of late. In the three-month period Sep-Nov, service sector production contracted by 1.0% QQ, well below the growth pace of previous quarters. Although the recovery in Nov is well in line with most survey indicators, the services PMI is still 6.2 points or 0.8 sd below the long-term average and NIER private service sector sentiment is 24.8 points or 1.4 sd below its historical average. In other words, this suggests that the global downturn is also making its mark on the domestic sector in Sweden. Together with continued weak indicators in manufacturing (mfg PMI stood at 44.3 in Dec), this confirms our view of contracting 4Q GDP growth.		
Feb 7 08:30 London Time	House Prices, Dec		
	According to Statistics Sweden's real estate price data for one- and two-dwelling buildings, house prices are stabilizing and we expect the December data to confirm this. In the three-month period Sep-Nov, home prices were flat in quarterly terms versus the previous three months (Jun-Aug). In annual terms, prices gained 1% during the last three months (Sep-Nov 2012) compared with the same period one year earlier (Sep-Nov 2011). Due to a delay at the land registration authority, we do not expect the Statistical Office to publish the data for January yet (the same has been the case in previous months). House prices according to Valueguard dropped 1.1% MM and gained 5.7% YY in December, and home prices according to Mäklarstatistik also showed a 1% MM decline.		
Feb 8 07:00 London Time	Registered Unemployment Rate, Jan	Forecast: 5.0%	Prior: 4.8%
	There are increasing signs that the labour market has started to deteriorate faster. Short-term indicators in most cases are at levels suggesting that employment is levelling out. On balance, registered unemployment is seen marginally up in January.		
Feb 8 08:30 London Time	Industrial Production, Dec	Prior: -2.2% MM, -3.0% YY	Prior: -1.3% MM, -4.3% YY
	The size of the downturn in industrial production fits well with the overall bleak picture painted by survey indicators for the manufacturing industry in recent months – not to mention anecdotal evidence of increasing lay-offs. Monthly activity data point to continued declines in industrial production ahead, supporting our forecast of a contraction in 4Q GDP.		

Norway

Feb 8 09:00 London Time	Manufacturing Production, Dec	Forecast: 0.1% MM	Prior: -0.1% MM
	Our model points to a slight recovery in December, following negative growth in Sep-Nov. We note though that the latest regional network report from Norges Bank and the latest quarterly manufacturing survey from Statistics Norway point to a slowdown in production in 4Q, and the 4Q manufacturing survey also confirmed weak growth in the final quarter of 2012. Also, it is important to keep in mind that the monthly growth rate is extremely volatile.		

United Kingdom

Feb 5 09:30 London Time	Services PMI, Jan	Forecast: 49.0	Prior: 48.9
	The services PMI fell sharply in December, reaching its lowest level since late 2010, and we expect another sub-50 reading this time – the first time since early 2009 that the index has been below 50 for two consecutive months. Such a figure would cast serious doubts on MPC and consensus forecasts that the economy will recover in 2013.		
Feb 7 09:30 London Time	Trade Balance – Goods & Services, Dec	Forecast: £-3.2 Billion	Prior: £-3.5 Billion
	The UK's deficit on goods and services trade already has risen to £34.5bn in January-November 2012 from £23.6bn in the whole of 2011. The record deficit for a full calendar year currently is £37.6bn, set in 2007, and it is touch and go whether that will be exceeded: our forecast would (assuming no revisions) put the 2012 deficit at a new record high of £37.7bn.		
Feb 7 09:30 London Time	Industrial Production, Dec	Forecast: 0.1% MM, -2.8% YY	Prior: -1.9% MM, -2.4% YY
	Manufacturing Output, Dec	Forecast: 0.2% MM, -2.9% YY	Prior: -0.3% MM, -2.1% YY
	Surveys suggest that manufacturing output remained quite weak in December, but we expect a slight rise in the index after declines in the two prior months. Even so, such a figure would leave 4Q industrial production down by 2.2% QQ, the sharpest drop since 1Q-2009.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts.

Economic Indicators

Key Economic Indicators (11 February – 15 February 2013)

Monday 11 February		Forecast	Last
07:45	France: Industrial Production, Dec		
09:00	Norway: Consumer Prices, Jan		
16:00	Euro Area: Eurogroup Meeting (Brussels)		
Tuesday 12 February		Forecast	Last
00:01	UK: RICS House Price Survey, Jan		
	EU: EcoFin Meeting (Brussels)		
07:45	France: Balance of Payments, Dec		
08:15	Switzerland: Consumer Prices, Jan		
09:30	UK: Producer Input Prices, Jan	0.9% MM, 1.1% YY	-0.2% MM, 0.3% YY
09:30	UK: Producer Output Prices, Jan	0.2% MM, 2.0% YY	-0.1% MM, 2.2% YY
	Excluding Food, Drink, Tobacco, Energy, Jan	0.1% MM, 1.3% YY	0.0% MM, 1.5% YY
09:30	UK: Consumer Prices, Jan	-0.3% MM, 2.9% YY	0.5% MM, 2.7% YY
	CPI Ex Food, Drink, Tobacco, Energy, Jan	0.5% MM, 2.5% YY	0.5% MM, 2.4% YY
09:30	UK: Retail Prices, Jan	-0.6% MM, 3.1% YY	0.5% MM, 3.1% YY
	RPIX – Excludes Mortgages, Jan	-0.6% MM, 3.0% YY	0.4% MM, 3.0% YY
Wednesday 13 February		Forecast	Last
08:15	Switzerland: Producer & Import Prices, Jan		
08:30	Sweden: Riksbank Monetary Policy Outcome		
08:30	Netherlands: Consumer Prices, Jan		
08:30	Netherlands: Retail Sales, Dec		
09:00	Norway: GDP, 4Q		
10:00	Euro Area: Industrial Production, Dec		
10:30	UK: Bank of England <i>Inflation Report</i>		
Thursday 14 February		Forecast	Last
06:30	France: GDP, 4Q Flash		
07:00	Germany: GDP, 4Q Flash		
07:45	France: Nonfarm Payrolls, 4Q		
08:00	Slovakia: GDP, 4Q Flash		
08:00	Austria: GDP, 4Q Flash		
08:30	Netherlands: GDP, 4Q Flash		
08:30	Netherlands: Trade Balance, Dec		
09:00	Italy: GDP, 4Q Flash		
09:00	Euro Area: ECB Bulletin		
10:00	Portugal: GDP, 4Q Flash		
10:00	Euro Area: GDP, 4Q Flash		
	Greece: GDP, 4Q Flash		
	Greece: Unemployment, Nov		
Friday 15 February			
08:00	Spain: Consumer Prices, Jan Final		
09:00	Italy: Trade Balance, Dec		
09:00	Norway: Trade Balance, Dec		
09:30	UK: Retail Sales Volumes, Jan		
09:30	Italy: General Government Debt, Dec		
10:00	Euro Area: Trade Balance, Dec		
10:00	Italy: Current Account, Dec		
Sunday 17 February			
	Cyprus: Presidential Election		

Sources: National statistical offices, central banks and Citi Research

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area: Sovereign Debt Crisis Update	Jürgen Michels	Feb 1, 2013
European Economic Forecast Highlights - January 2013	Ann O'Kelly	Jan 28, 2013
ECB - 1Q Rate Cut No Longer Likely	Jürgen Michels	Jan 10, 2013
ECB - Below-Target Inflation Outlook Leaves Door Open for Rate Cuts	Jürgen Michels	Dec 6, 2012
Euro Economics Weekly		
Global Export Bounce: Greece, Ireland & Spain Set to Outperform	Guillaume Menuet	Jan 25, 2013
Germany: Economy and Politics Matter in 2013	Jürgen Michels	Jan 18, 2013
Cyprus – Some Form of Debt Restructuring Looks Increasingly Likely	Giada Giani	Jan 11, 2013
ECB — No Action in January, But More to Come in 2013	Jürgen Michels	Jan 4, 2013
Italy — Fluid Politics	Giada Giani	Dec14, 2012
Chief Economist Publications		
Global Economic Outlook and Strategy - January 2013	Willem Buiter	Jan 23, 2013
Italy		
Italy - Positive Fiscal Dynamics, But Debt Ratio Still Set to Rise	Giada Giani	Jan 9, 2013
Greece		
The Greek Deal -	Giada Giani	Nov 27, 2012
Ireland		
Ireland - Industrial Production Hit By "Patent Cliff"	Michael Saunders	Nov 6, 2012
Norway		
Scandi Economics Update	Tina Mortensen	Feb 1, 2013
Norway - Lending Survey: Tighter Lending Standards for Households	Tina Mortensen	Jan 17, 2013
Sweden		
Sweden - Industry Sector Weakens Further in November	Tina Mortensen	Jan 10, 2013
Sweden - Minutes: Riksbank Considered a 50bp Rate Cut in December	Tina Mortensen	Jan 8, 2013
Denmark		
Denmark, Finland, Norway and Sweden - Scandis: Exceptions to Europe's Fiscal Woes	Tina Mortensen	Dec 10, 2012
Switzerland		
Switzerland - Economy Continues to Outperform EMU	Michael Saunders	Nov 29, 2012
UK		
UK – More Mixed Signals on FLS -	Michael Saunders	Jan 30, 2013
UK - YouGov Report Slight Rise in Inflation Expectations	Michael Saunders	Jan 28, 2013
UK – Triple Dip -	Michael Saunders	Jan 24, 2013
UK - Cameron Speech	Michael Saunders	Jan 23, 2013
UK Economics Weekly		
Triple Dip and Stagflation	Michael Saunders	Jan 25, 2013
"Brexit" – Could It Happen? Would it Matter?	Michael Saunders	Jan 18, 2013
The "Great Stagnation" Continues	Michael Saunders	Jan 11, 2013
2013 Outlook: Stagnation and Stimulus	Michael Saunders	Jan 4, 2013
Source: Citi Research		

Accessing Citi Economic Research

We want to highlight to you that our research is also available for your convenience through the following research distribution providers:

- Bloomberg using CTIR<GO>
- FactSet
- Thomson Reuters
- TheMarkets.com from Capital IQ

You are automatically able to view Citi research if you have entitlement on one of these systems. If you do not currently have Citi entitlement on these systems, please contact your provider representative to request access.

These services are available to you in addition to Citi website access and research email services you may already receive from Citi directly.

If you have any questions or we can be of further assistance please do not hesitate to contact us.

Notes

Notes

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

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

Citigroup Global Markets Ltd

Jürgen Michels; Giada Giani; Guillaume Menuet; Michael Saunders; Ebrahim Rahbari; Ann O'Kelly

OTHER DISCLOSURES

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

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

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Research research report. Ask your Financial Advisor or use smithbarney.com to view any

available Morgan Stanley research reports in addition to Citi Research research reports.

Important disclosure regarding the relationship between the companies that are the subject of this Citi Research research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

This Citi Research research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of Citi Research. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A., Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian

Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

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

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to Citi Research's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product. With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs) and other product that is made available through other distribution channels only to certain categories of clients to satisfy legal or regulatory requirements, Citi Research concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual Citi Research analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. Citi Research simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by Citi Research analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints. Citi Research product may source data from dataCentral. dataCentral is a Citi Research proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2013 Citigroup Global Markets Inc. Citi Research is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

EU30201B
