

10 October 2013

Global Macro Strategy

CGMS <GO>

Chartpack Accompanying Weekly Views and Trade Ideas

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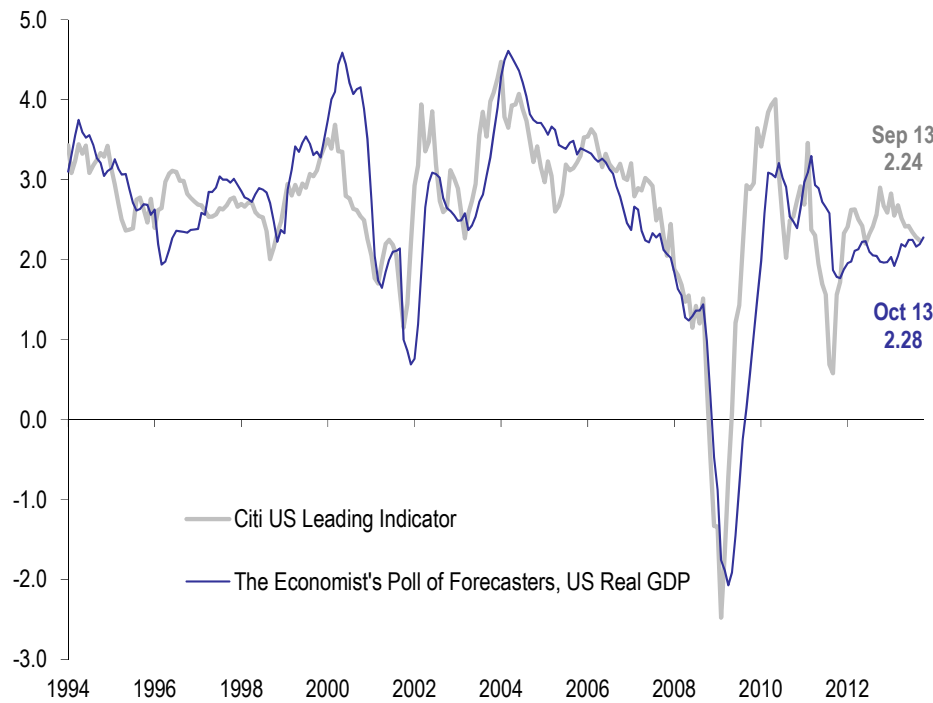
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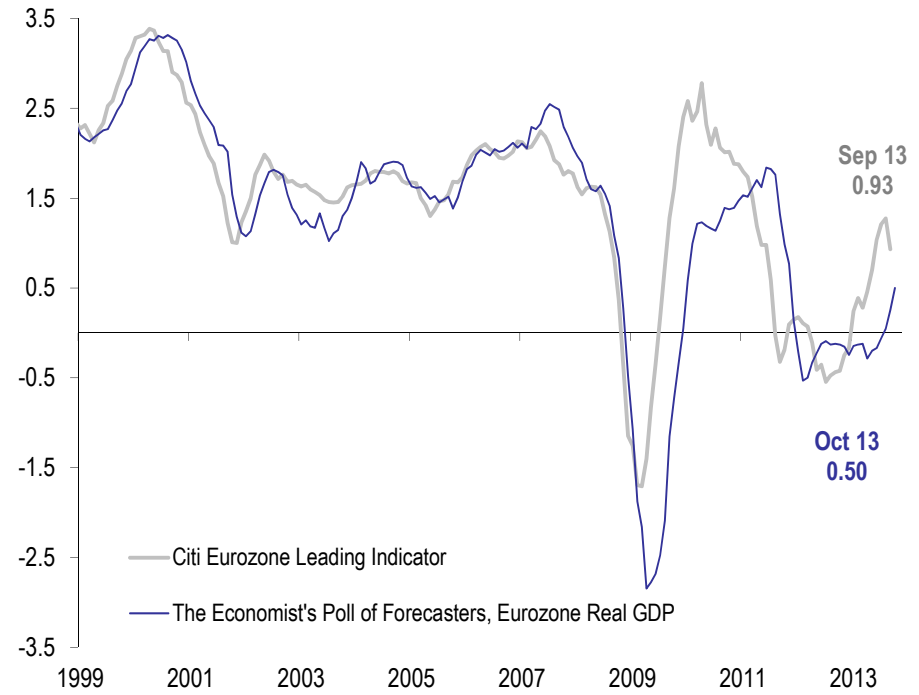
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CGMS Leading Indicators For Growth Expectations



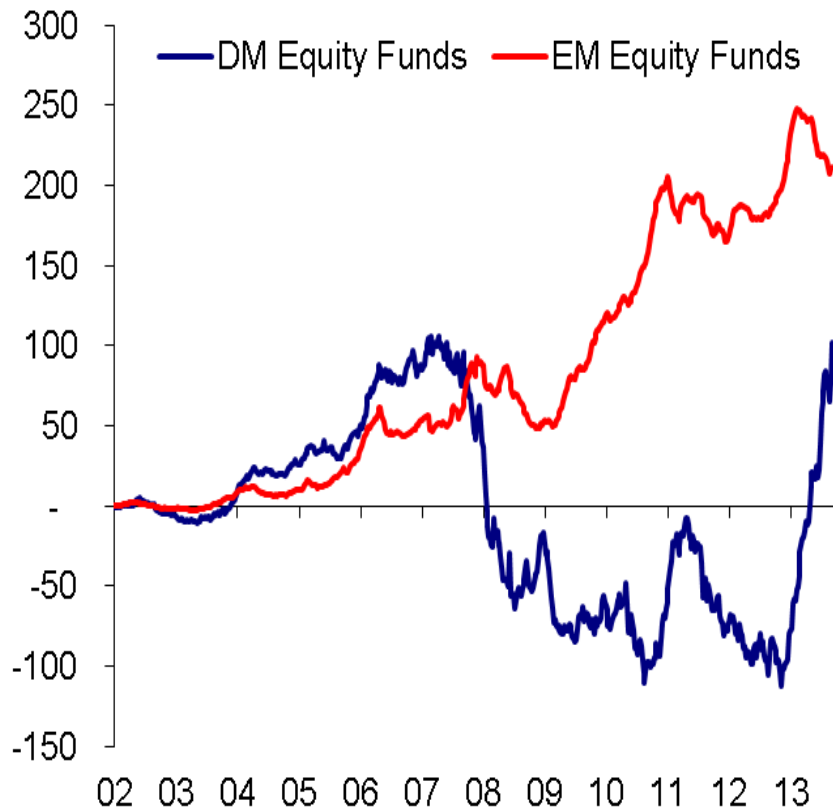
CIGMLIUS Index on Bloomberg



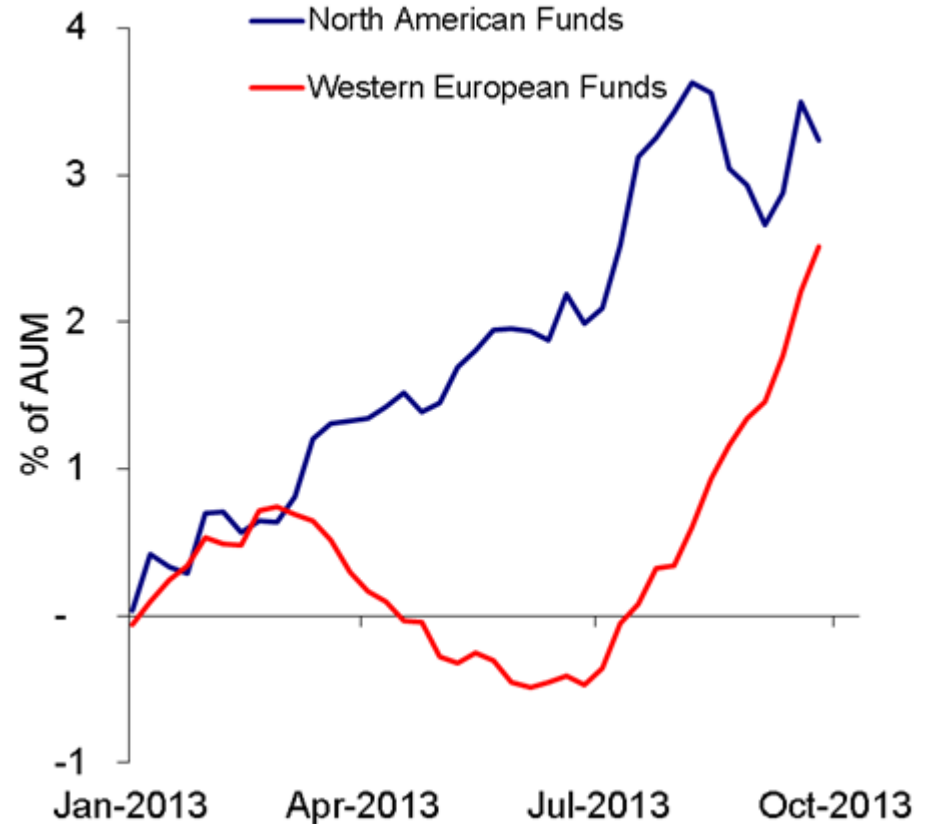
CIGMLIEU Index on Bloomberg

Out of EM Into Europe

Cumulative Weekly Inflows Into DM and EM Equity Funds Since 2002, \$bn

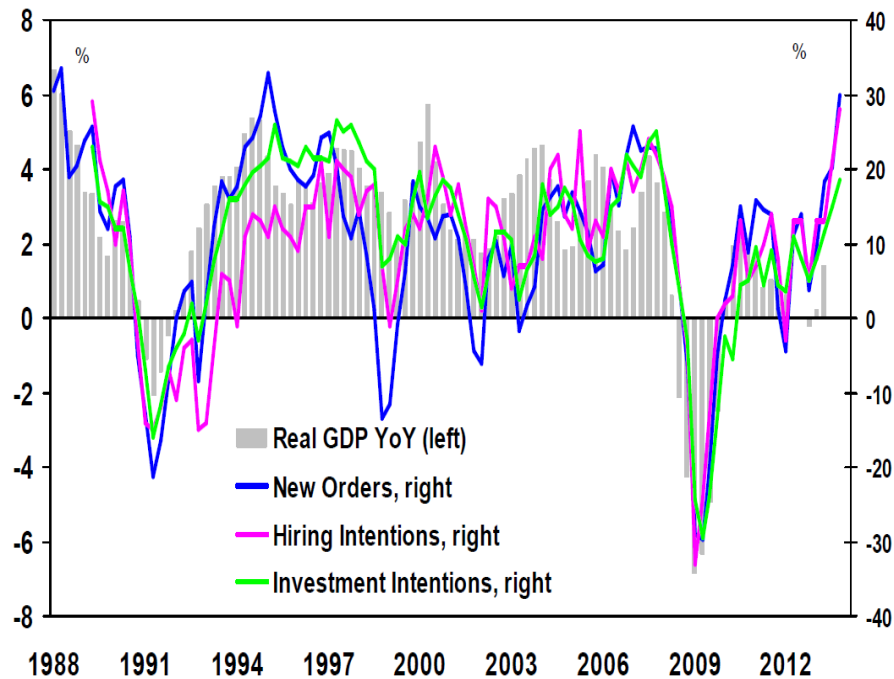


YTD Cumulative Weekly Inflows Into North American and European Funds, % AUM

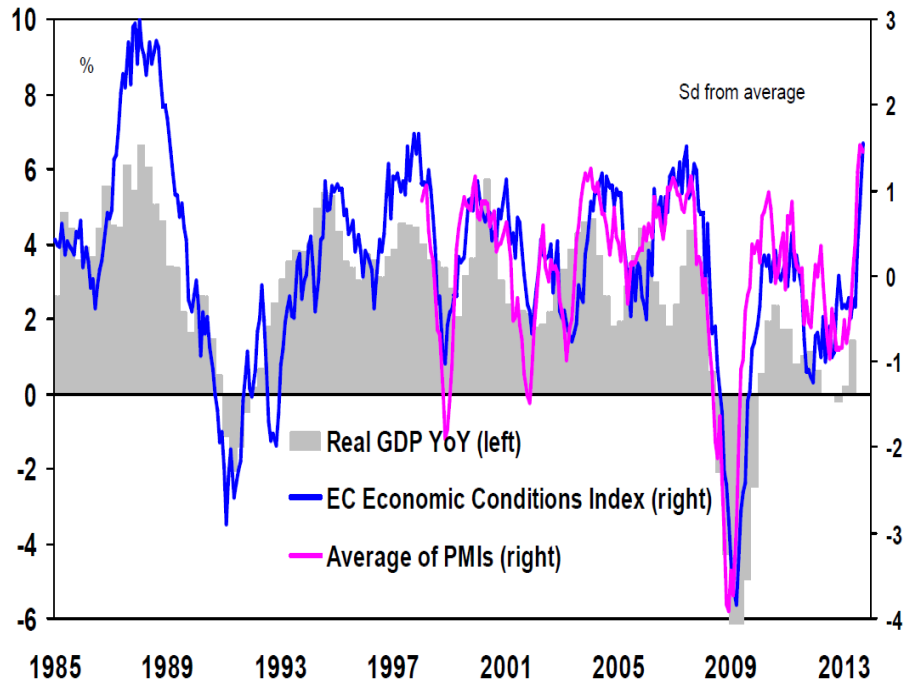


UK Data To Surprise Even More?

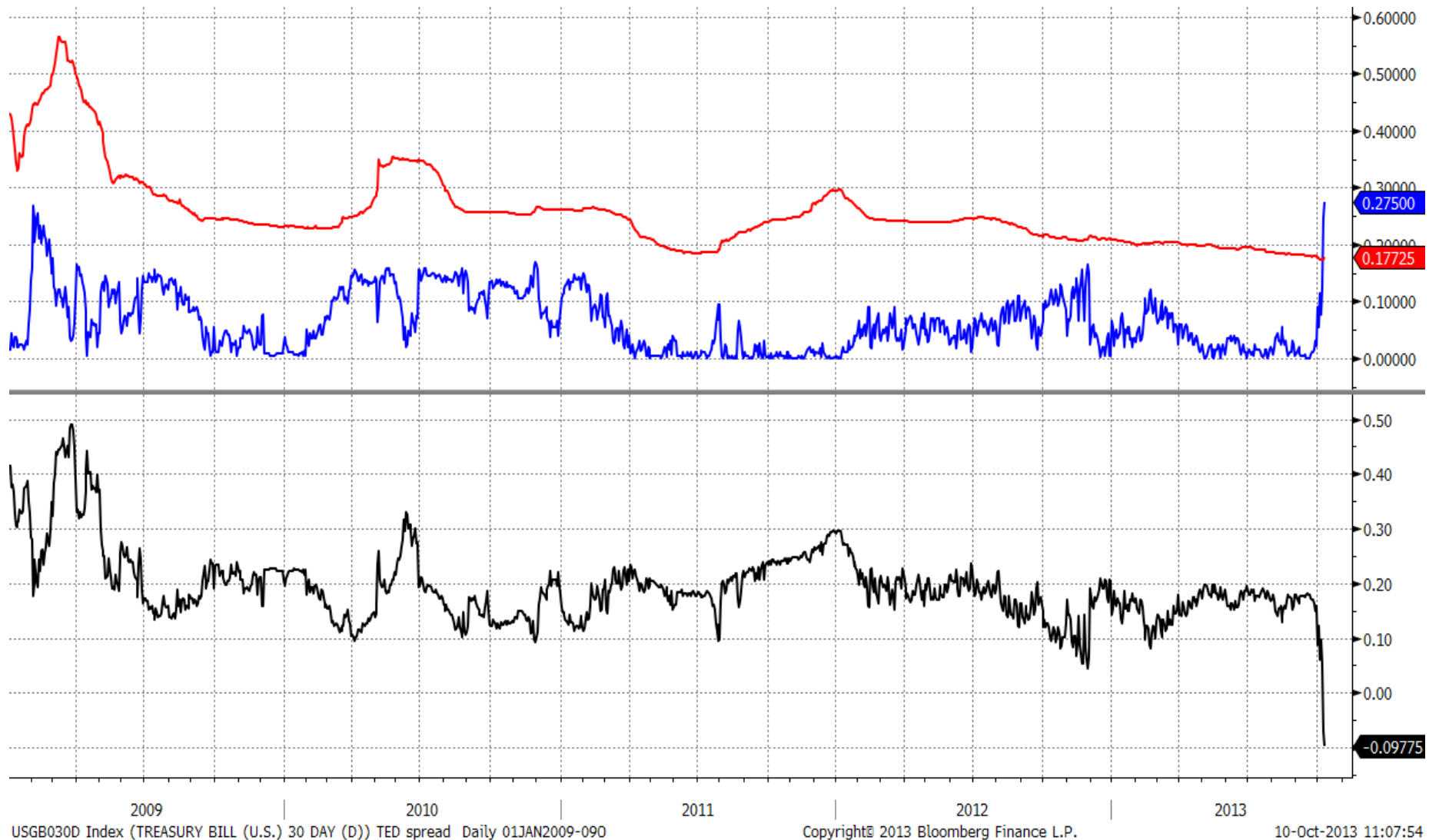
BCC Business Survey and GDP Growth



PMI and EC Surveys and GDP Growth



TED Spread Inverts For The First Time Since 2001



Red – 1m USD Libor

Blue – 1m T-Bill

Black – 1m TED Spread

Sources: Bloomberg and Citi Research

USTs Yields: Consolidating Near 2.60%



USGG10YR Index (US Generic Govt 10 Year Yield) UST Technical Daily 31DEC2012-09

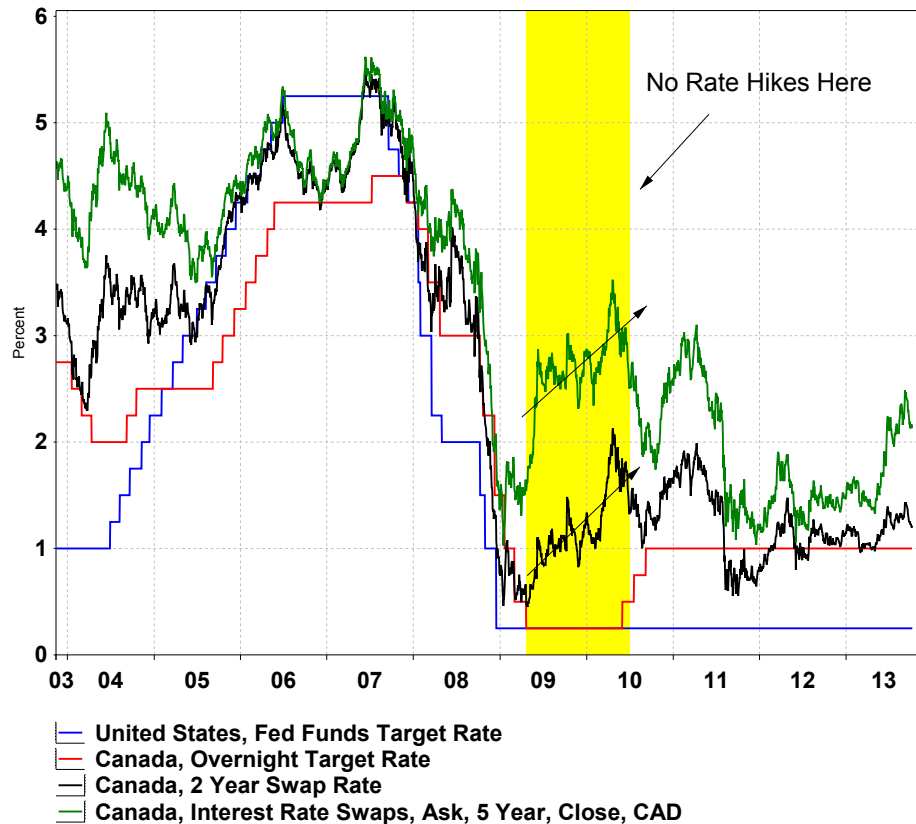
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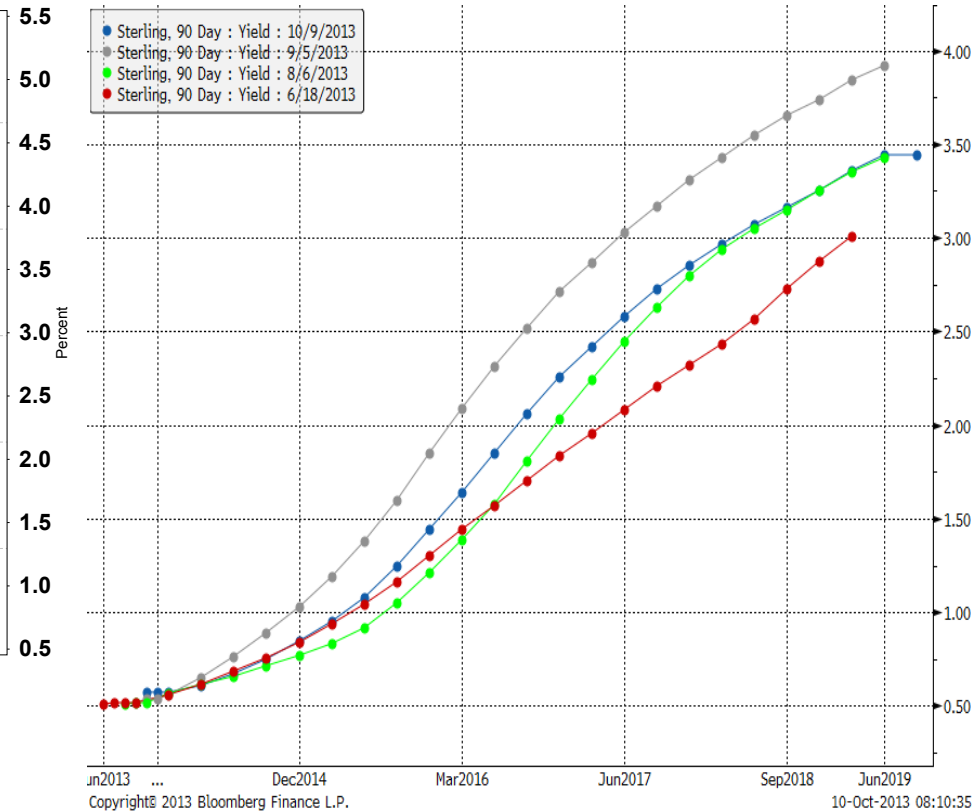
Sources: Bloomberg and Citi Research

Strong Economy Voids Forward Guidance

Previous Carney Guidance



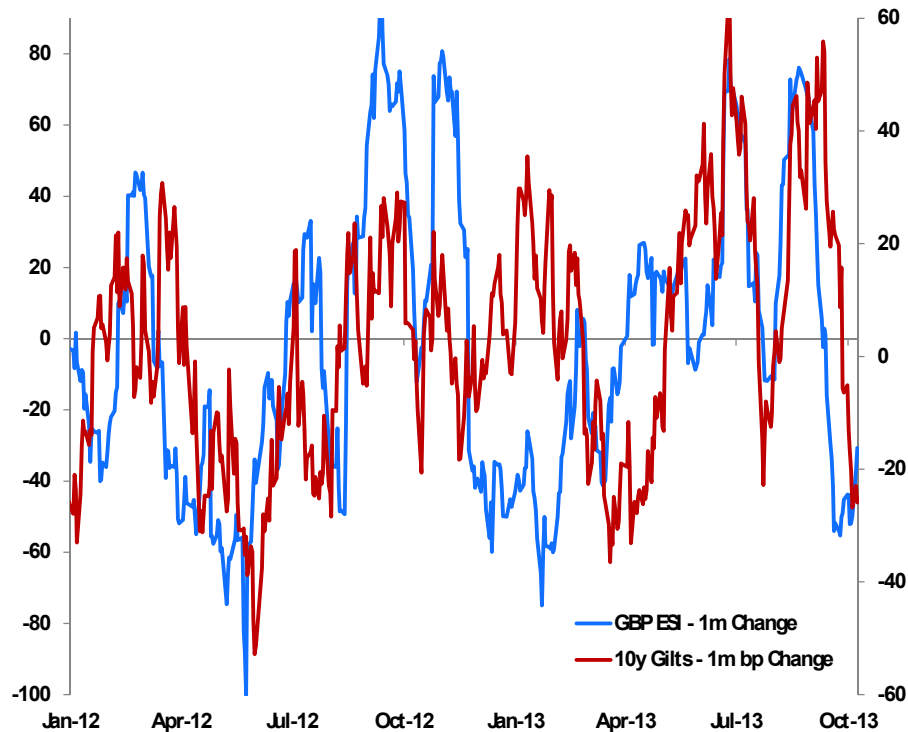
Short Sterling Strip Before And After BoE Guidance



Blue – Latest
Grey – September Highs
Green – 1d Before Inflation Report
Red – 1d Before Jun FOMC

10y Gilt Yields: Recent Pull Back A Selling Opportunity?

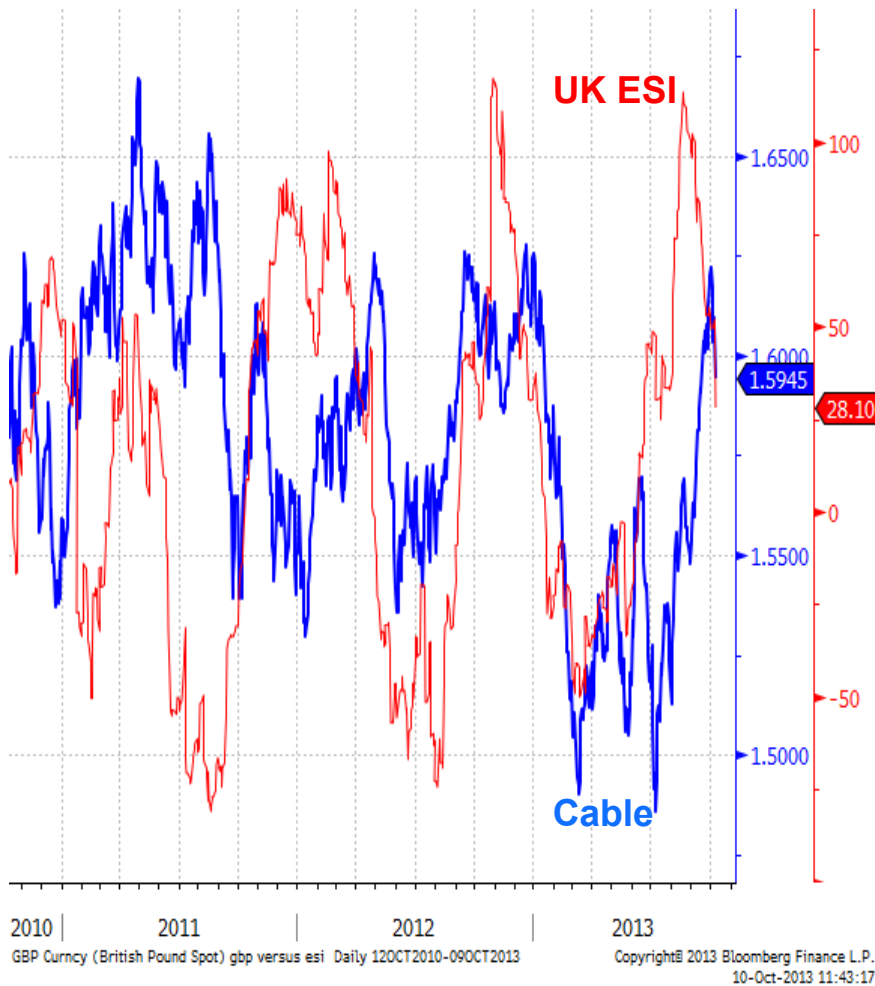
10y Gilts vs. Data Surprises



10y Gilt Technicals



Stronger FTSE and Stronger Cable?



EUR/JPY Holding Support Level



EURJPY Curncy (EUR-JPY X-RATE) EURJPY Technicals Daily 01OCT2012-10OCT2014

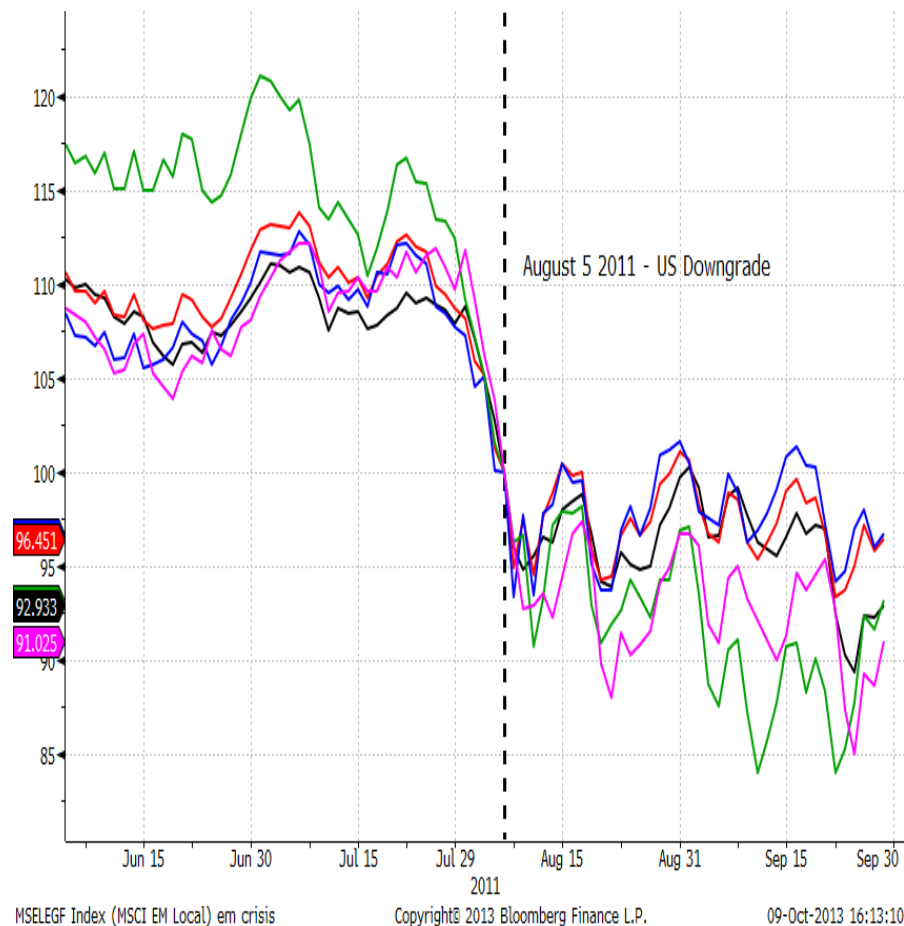
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Sources: Bloomberg and Citi Research

Global Equities – August 2011 and Now

05 August 2011 = 100



19 September 2013 = 100

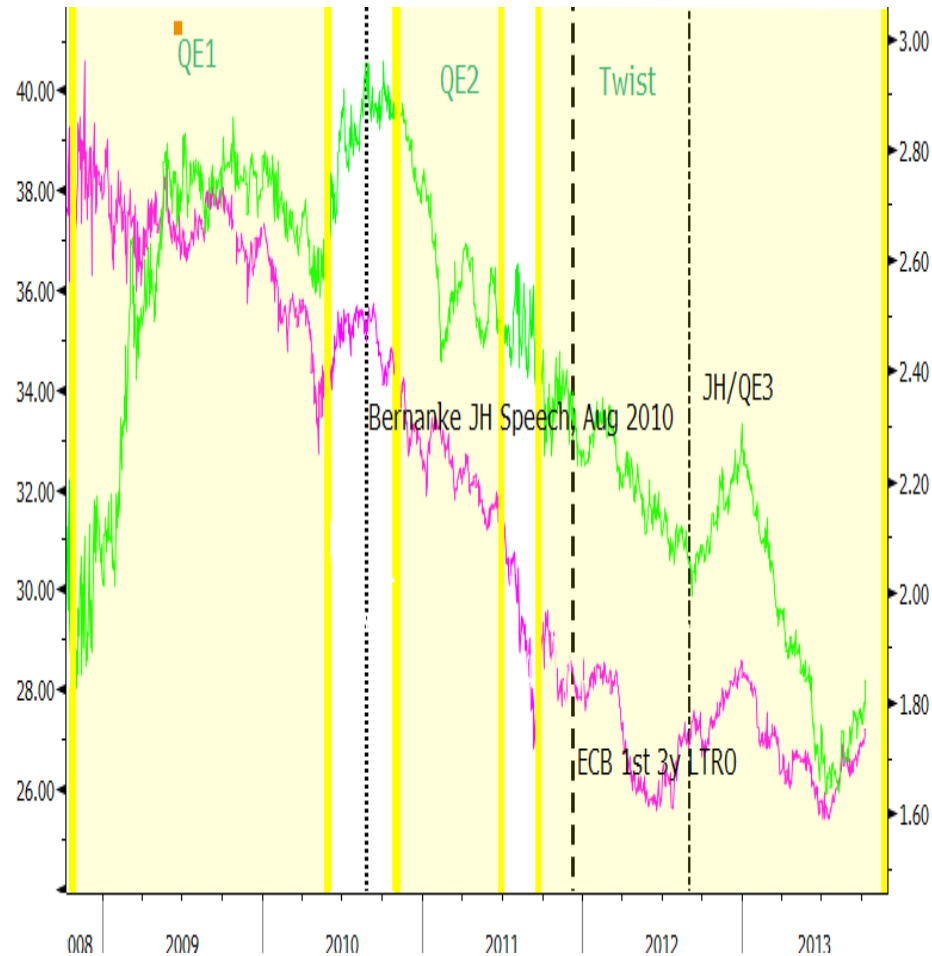


Black – MSCI EM Local **Red – MSCI World Local** **Blue – SPX** **Green – EurpStoxx 50** **Pink – Kospi**

Sources: Bloomberg and Citi Research

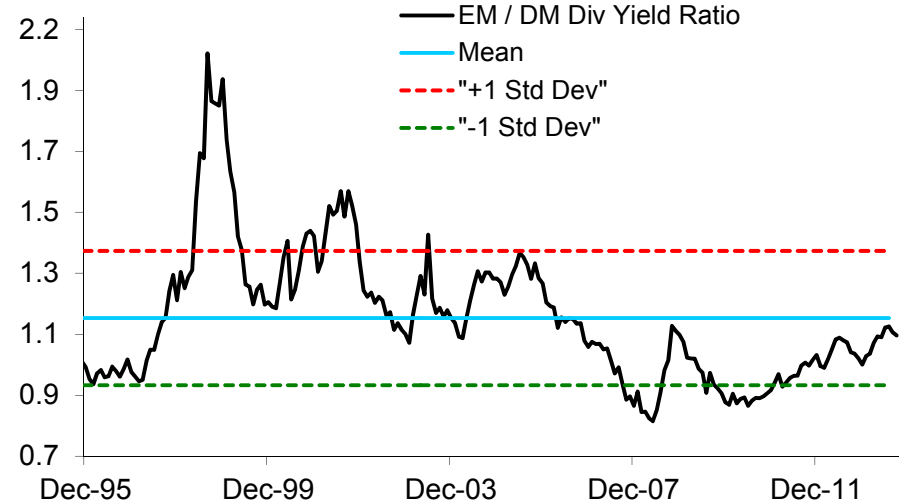
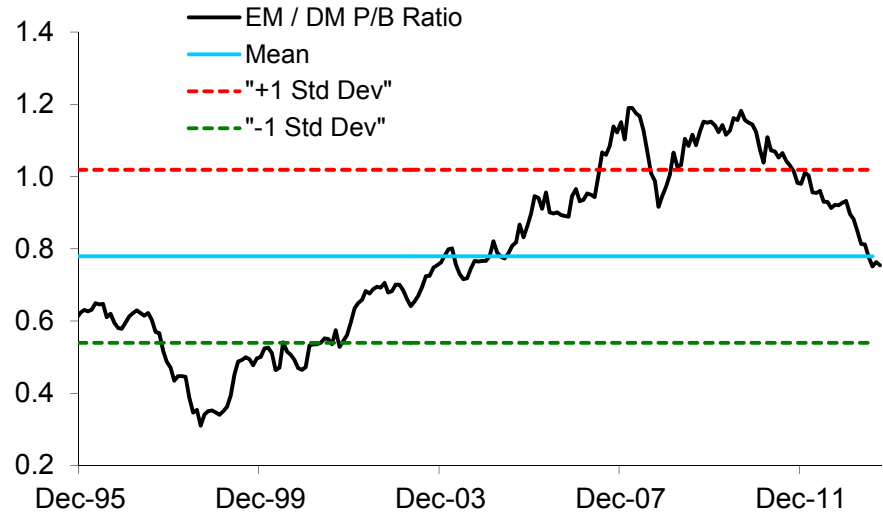
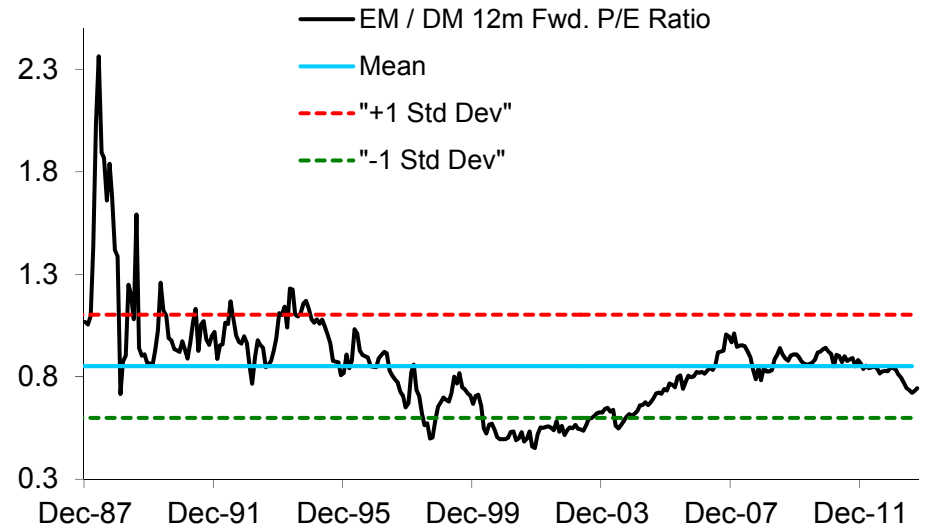
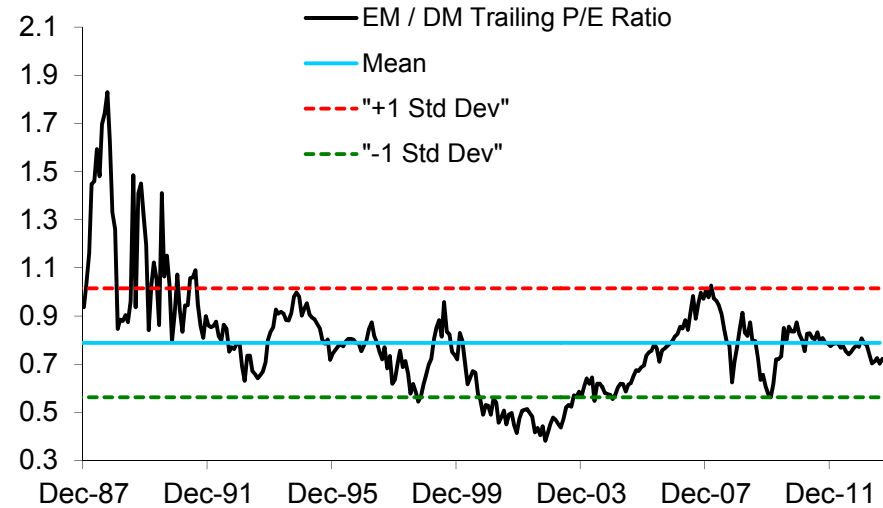
Easy Money and Global Equities

Balance Sheet Expansion Helps SPX Most...

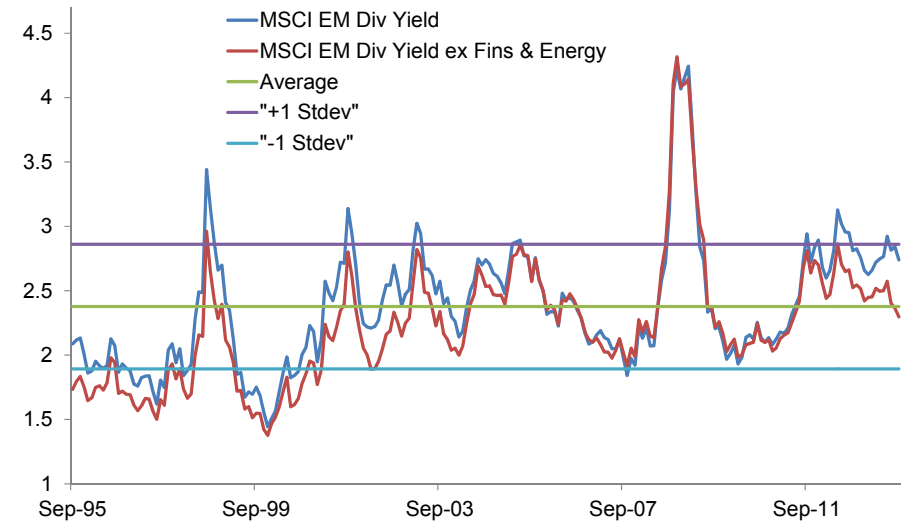
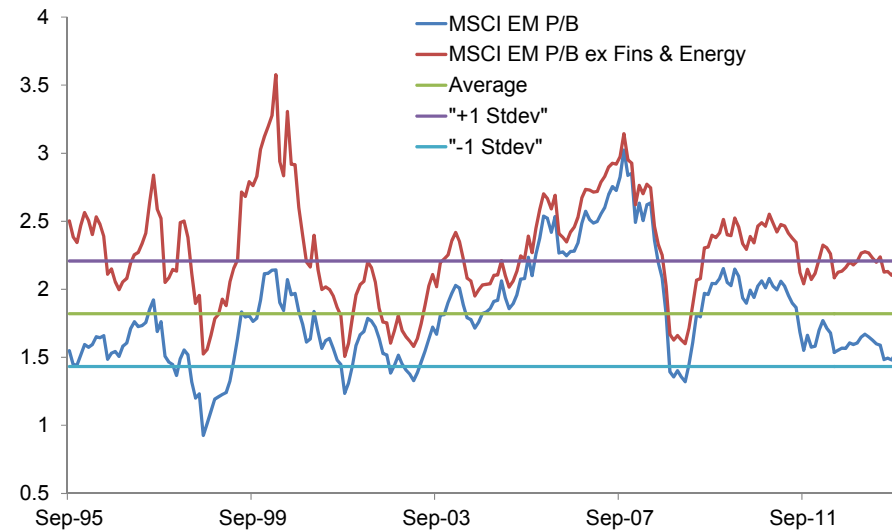
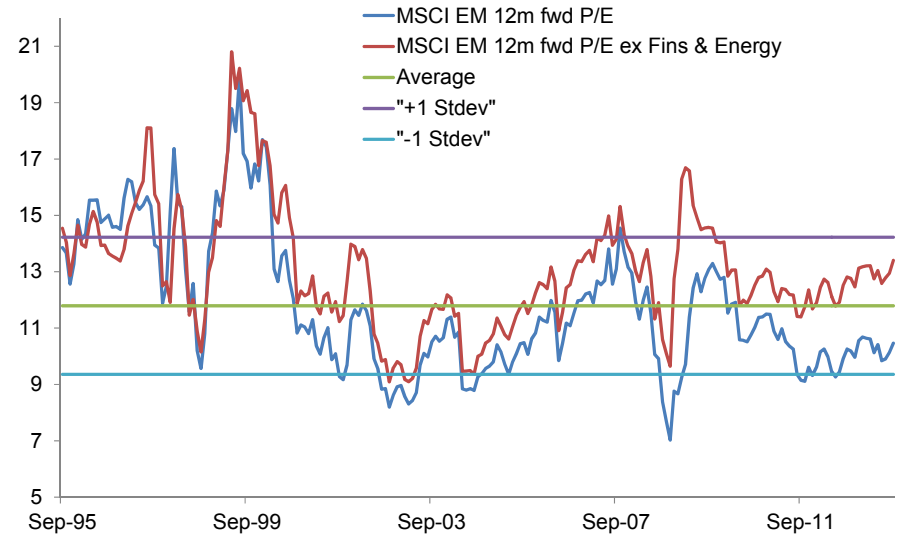
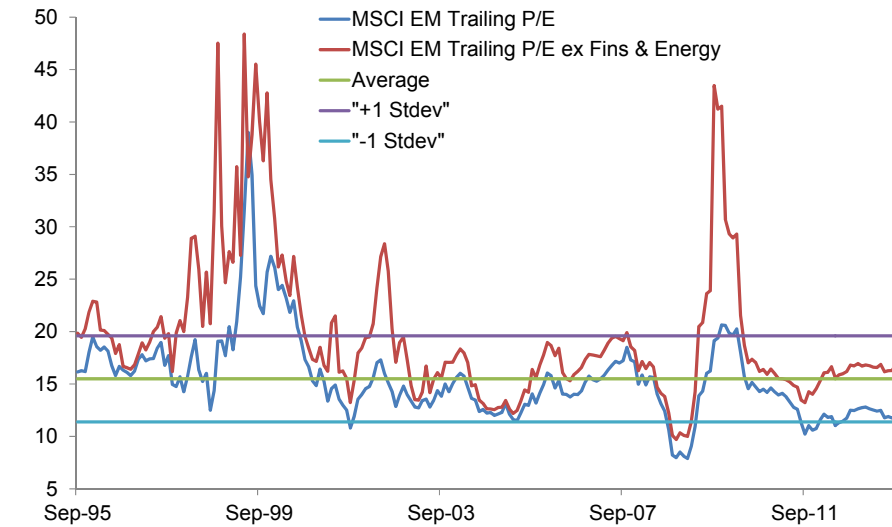


Green – MSCI EM Equities (Local)/SPX (LHS)
Pink – EuroStoxx 50 vs. SPX (RHS)

EM Valuations – Pretty Average vs. DM

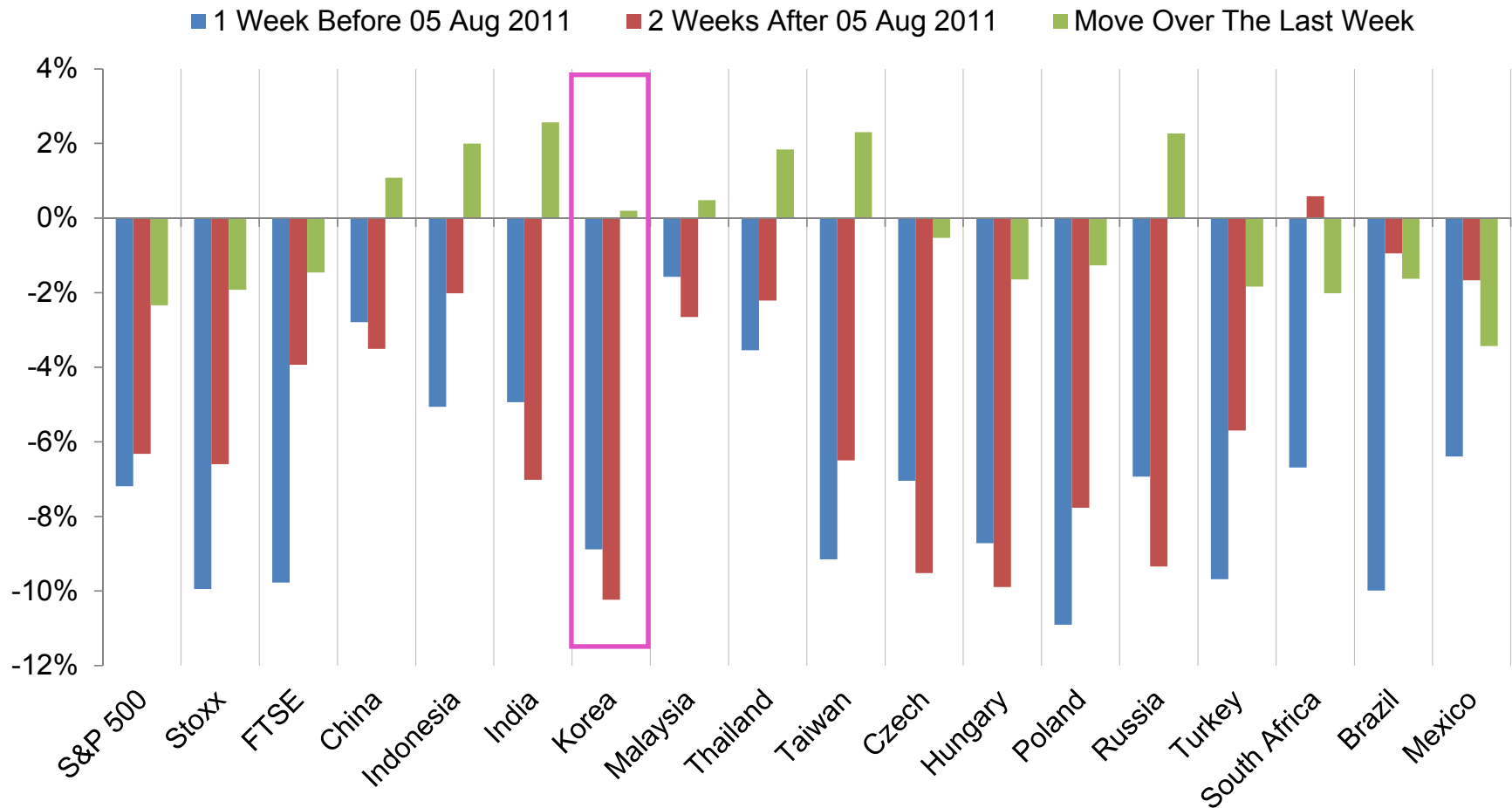


EM Equity Valuations Ex-Financials & Energy



Sources: MSCI, IBES and Citi Research

US Downgrade August 2011 - EM Equity Market Moves

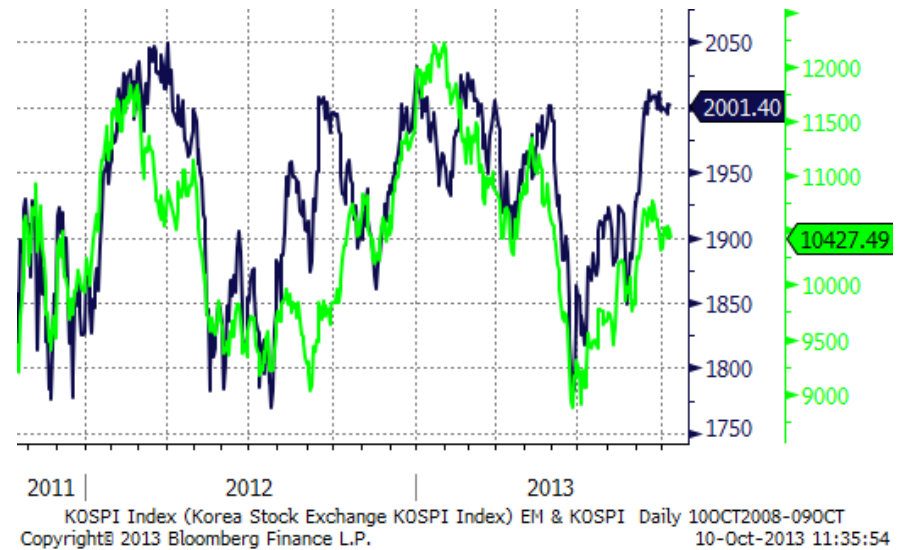


Korea's Kospi

Kospi in Candles



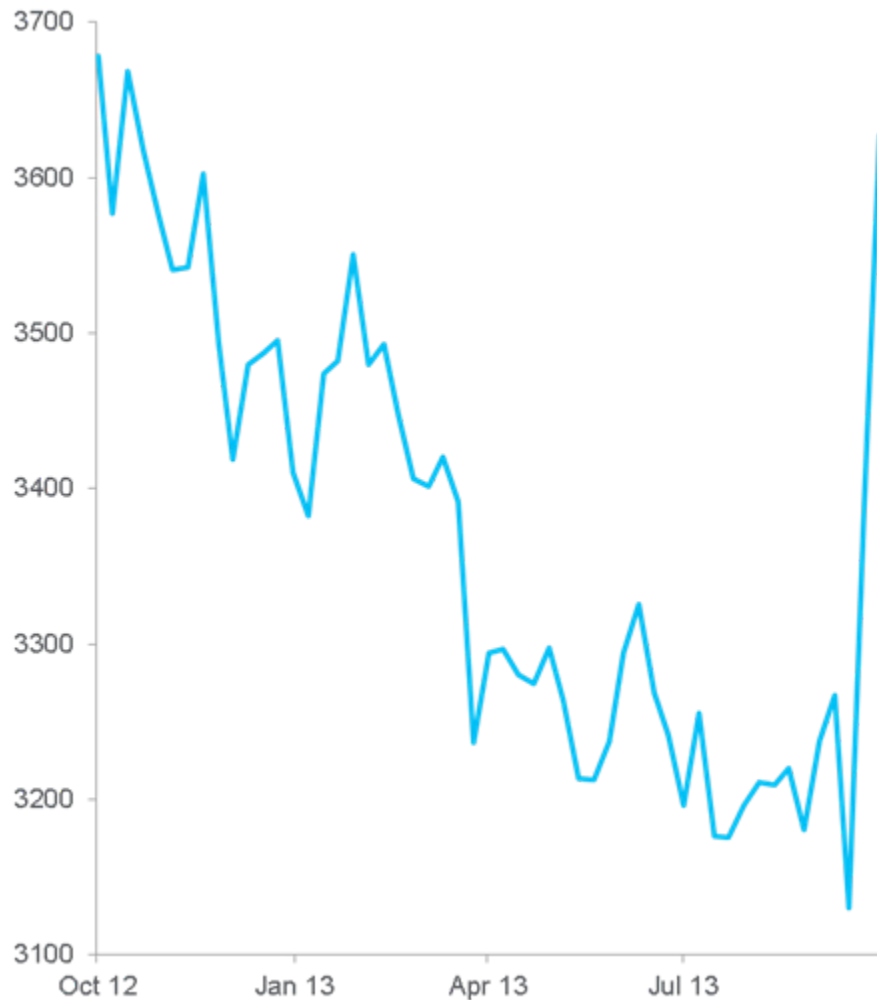
Kospi (Blue) vs. HSCEI (Green) and AUD (Red)



Sources: Bloomberg and Citi Research

US CDS Jumped, But Still Tighter Than 2011

US CDS Net Notional Outstanding, \$m



US CDS 5y Spread, bp



Palladium vs. Gold Trade...

Precious Metal RV vs. S&P 500

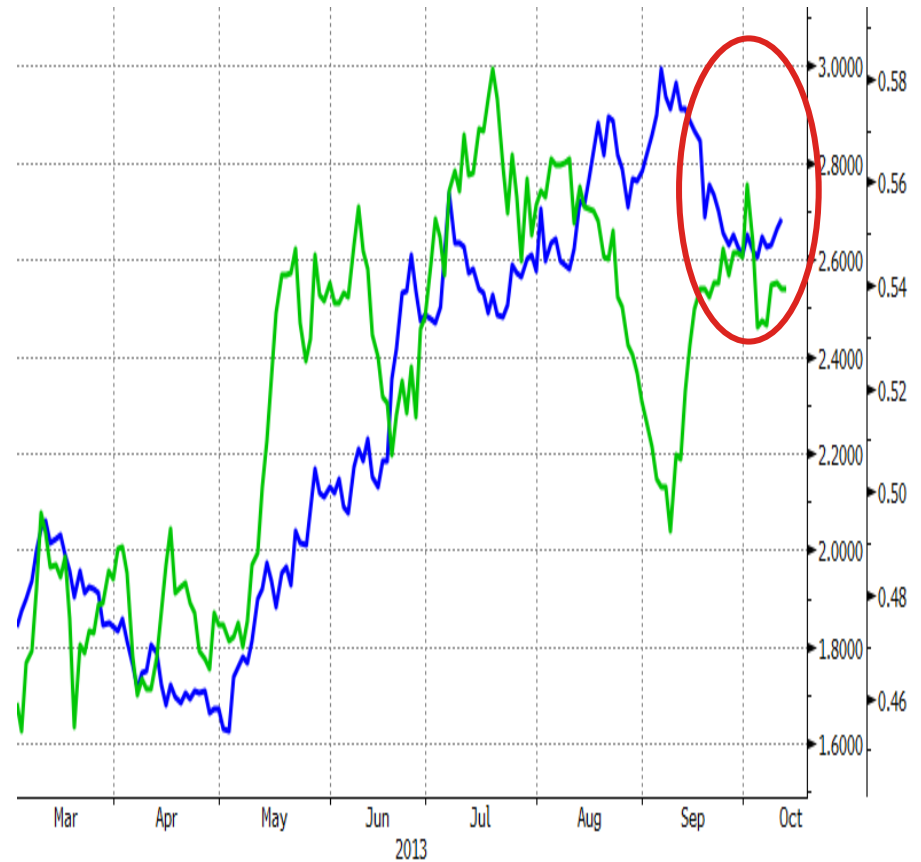


SPX Index (S&P 500 Index) Gold Pall vs SPX Daily 03SEP2012-12DEC2013 Copyright© 2013 Bloomberg Finance L.P. 10-Oct-2013 11:17:28

Red – S&P 500

Green – Palladium/Gold

Precious Metal RV vs. 10y UST Yields

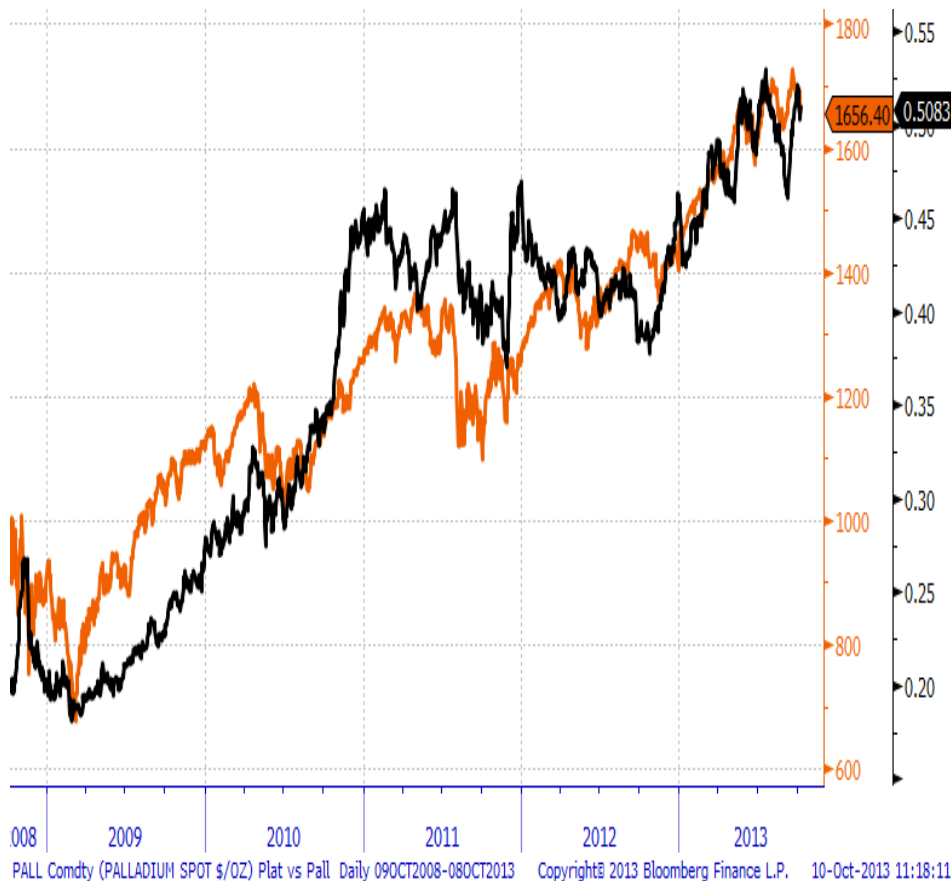


USGG10YR Index (US Generic Govt 10 Year Yield) Gold Pall vs UST Daily 01MAR2013 Copyright© 2013 Bloomberg Finance L.P. 10-Oct-2013 11:16:35

Blue – 10y UST Yields

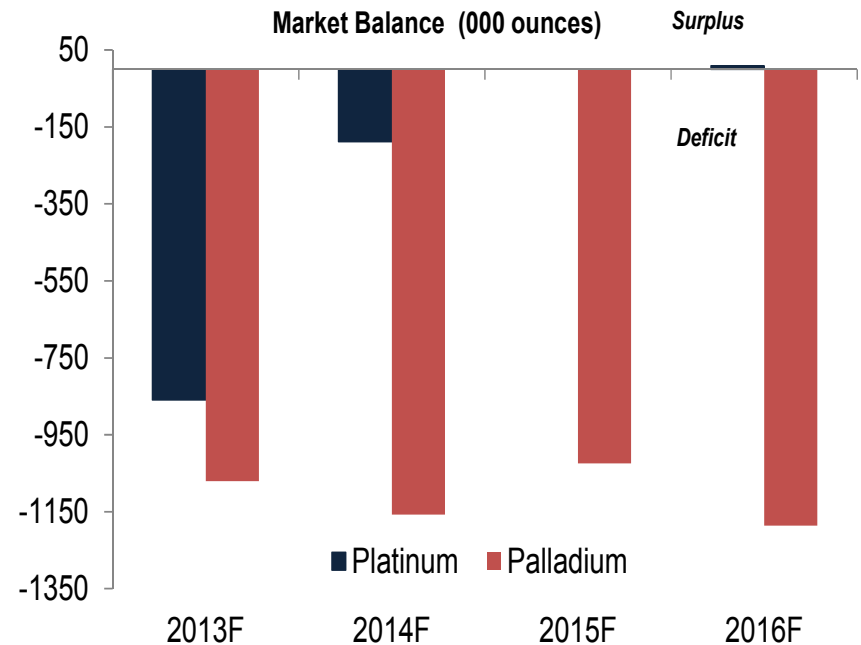
...Why Palladium And Not Platinum?

Palladium Tends To Outperform In 'Risk-On'



Red – S&P 500
Black – Palladium/Platinum

Forecast Palladium Supply Deficit Is Larger

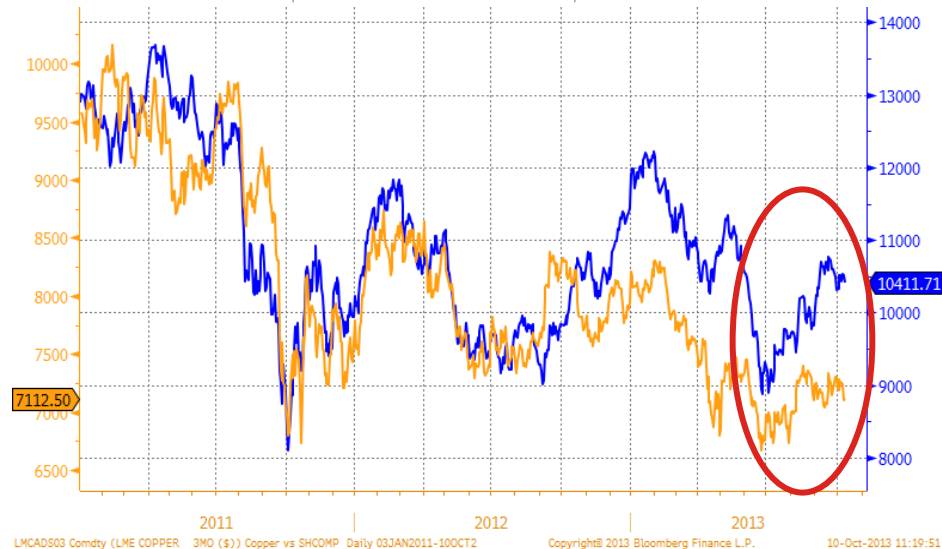


Copper Lagging Other China Centric Assets...

Copper vs. HSCEI and Iron Ore



Copper Net Positioning



Copper Technicals

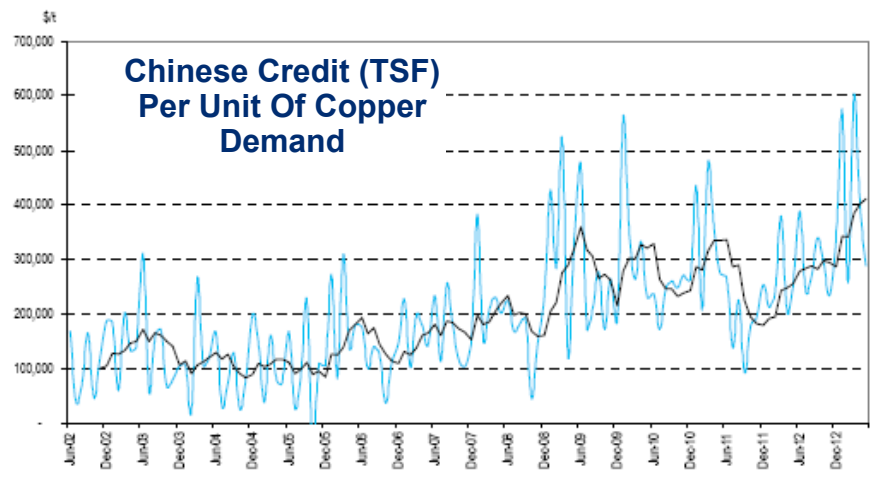
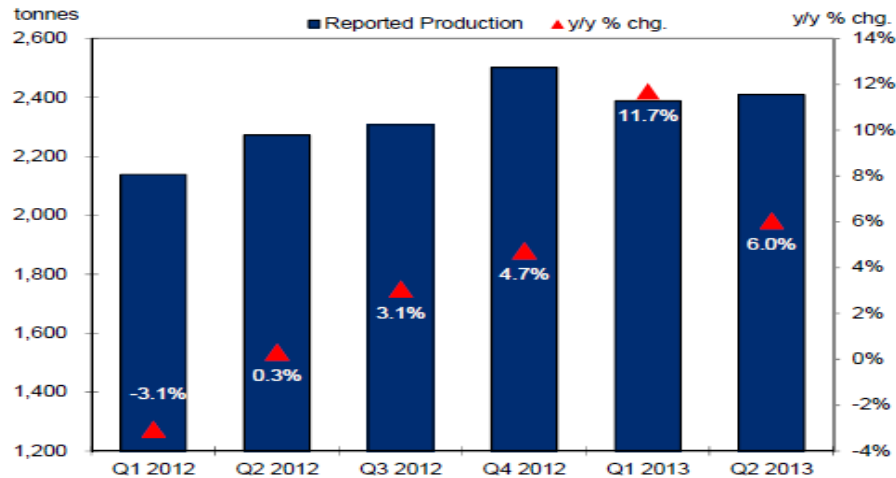


Orange – 3m LME Copper
Blue – HSCEI
Black – Iron Ore

Sources: Bloomberg and Citi Research

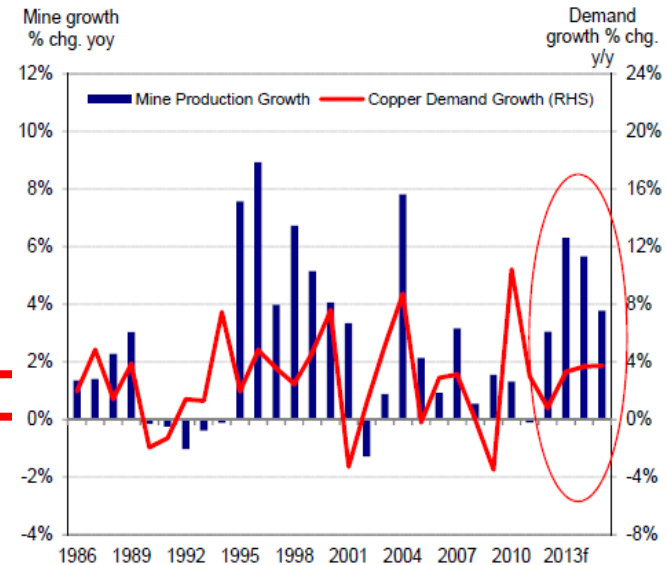
...But Medium Term Fundamentals Still Negative

Copper Mine Supply Increasing & Consumption Expected To Weaken...



Copper Supply/ Demand Forecast

kt	2011	2012	2013e	2014e	2015e	2016e	2017e
Mine Production (conc.)	12,728	13,020	13,962	14,844	15,522	16,319	17,051
Scrap/Resmelted blister etc. (incl losses)	2,710	2,695	2,516	2,554	2,450	2,137	1,941
Smelter Capacity	17,986	18,861	19,775	20,971	21,796	22,103	22,090
Smelter Production	15,447	15,718	16,443	17,248	17,872	18,456	19,042
Mine Production (Sxew)	3,457	3,658	3,769	3,891	3,920	3,830	3,796
High Grade Scrap	731	764	681	675	681	696	791
Mine Production (Total)	16,185	16,678	17,731	18,735	19,442	20,149	20,847
Refined Production (Total)	19,635	20,139	20,893	21,814	22,472	22,982	23,629
Refined % Change	3.2%	2.6%	3.7%	4.4%	3.0%	2.3%	2.8%
Consumption/Demand	19,783	19,944	20,601	21,359	22,158	22,932	23,674
Demand % Change	3.0%	0.8%	3.3%	3.7%	3.7%	3.5%	3.2%
Surplus/Deficit	-148	195	292	455	314	50	-45
Stock Change	-75	91	292	455	314	50	-45
Stocks	1,156	1,247	1,539	1,994	2,308	2,358	2,313
Stock:Consumption Ratio (wks)	3.0	3.3	3.9	4.9	5.4	5.3	5.1
Price (US\$/lb)	4.00	3.60	3.31	2.97	3.08	3.18	3.22
Price (US\$/t)	8,829	7,945	7,290	6,550	6,800	7,000	7,100



Sources: Wood Mackenzie, WBMS, ICSG and Citi Research

Global Macro Strategy Portfolio

TRADE SUMMARY as of 09:24 London Time, 10 October 2013		Open	Current	P&L	In profit?
FI	Sell 10yEUR HICPxT Inflation Swap (21 May)	1.89	1.79	1.09%	Y
	Buy 1y 1.80% EUR 10y Swap Receiver (prev vs. Sell 1y 2.45% USD 10y Swap Receiver) (21 May)	-33.1	6.6	0.04%	Y
	Receive 5y INR OIS (ND) vs. Pay 5y USD swaps. Stop (INR 5y): 9.0% (17 Sep)	6.54	6.56	-0.37%	N
FX	Buy USD & EUR vs. Sell JPY, TRY, ZAR, CZK (prev AUD, CLP, KRW, GBP) fwd to 18Dec. Various stops (15 Jul)	100.0	99.1	-0.91%	N
	Buy 18m 0.5% OTMF USD/CNY Strangle - expiring 05Feb15, strikes 6.355 and 6.2923 (06 Aug)	3.14	3.49	0.34%	Y
E	Buy Dec UKX (Z Z3) Futures (prev vs sell SXXP). Stop on UKX spot at 6020 (14 Mar)	100.0	95.6	-4.39%	N
C	Buy protection on 5y iTraxx Asia Ex Japan CDS (20 Jun)	139.0	151.5	-0.62%	N
C	Buy Dec13 Palladium Future (PAZ3) vs. Sell Dec13 Gold Future (GCZ3) (02 Aug)	0.56	0.54	-2.40%	N
X	Buy 21Dec13 SPX 1695 calls vs. sell 18Dec13 CDX IG21 85bp receivers (23 Sep)	0.00	-0.06	-0.06%	N
Number of open trades					9
In profit					3
In loss					6
Profitable open trades %					33.3%
Number of closed trades					494
In profit					318
In loss					176
Profitable closed trades %					64.4%
Profitable all trades %					63.8%
Current 'GRAMI Rule' Signal is LONG S&P 500 WITH 70% Exposure					

- P&L on trade ideas includes carry and roll costs but not trading commissions/ costs.
- Results should not, and cannot, be viewed as an indicator of future performance.
- Closed trade recommendation details available on request.
- Table shows opening levels and current mark where appropriate. Third column is % gain or loss on the trade. Summary statistics show % of trades in profit.
- Futures trading involves substantial risk of loss.

Indications of the general market conditions during the period covered for the open trades listed above can be found in the appendix located at the end of this presentation

Appendix: Representative Market Conditions For Global Macro Strategy Portfolio

	Opening	Marked to Market/ Current Level as of 09:24 London Time, 10 October 2013	Percent Change
10y EUR HICPxT Inflation Swap	1.889	1.864	-1.3%
10y EUR Swap Rates	1.620	2.151	32.8%
5y INR Swap Rates	8.310	8.150	-1.9%
5y USD Swap Rates	1.770	1.607	-9.2%
USD/JPY	100.15	97.74	-2.4%
USD/TRY	2.07	1.98	-4.4%
USD/ZAR	10.26	9.97	-2.8%
USD/CZK	19.95	18.92	-5.2%
EUR/JPY	130.60	132.05	1.1%
EUR/TRY	2.72	2.67	-1.7%
EUR/ZAR	13.50	13.47	-0.2%
EUR/CZK	26.02	25.55	-1.8%
USD/CNY	6.122	6.118	-0.1%
UKX	6489.9	6386.1	-1.6%
iTraxx Asia Ex Japan 5Y	139.0	151.5	9.0%
Palladium	727.8	703.3	-3.4%
Gold	1288.7	1302.4	1.1%
SPX	1700.0	1656.4	-2.6%
CDX IG S21 5Y	80.0	83.3	4.1%

Opening, Marked to Market/Current Levels, and Percent Change data match the timeframes shown on previous Slide "Trade Summary"

Regarding Options

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Please contact us for further details on the options recommendations that appear in this note.

EUR vs. USD Receiver Swaptions:

Holding long Bund or receiving EUR swaps can be hard in a marked-to-market sense, as both markets remain correlated to US FI developments. While we ultimately expect a wedge to be driven between rates markets of the two regions, daily moves remain highly correlated. Also note that the spread is correlated to risk-appetite. With implied volatilities near their lows, holding optionality for lower EUR/higher USD swap rates looks attractive we think. By selling near ATM USD swap receivers, we can fully fund slightly OTM EUR swap receivers, and keep a small premium take-in. If, as we expect, the sell-off in US FI persists, we will be looking to buy back the USD receivers, which would leave us with a cheap medium term EUR rates downside trade.

Trade: Buy 1y 1.80% EUR 10y Swap Receiver for 190c vs. Sell 1y 2.45% USD 10y Swap Receiver for 287c. At spot EUR/USD of 1.2866, net premium take-in of 33c of EUR notional. Spot 10y swap ref: 2.08% (USD) and 1.62% (EUR).

After the move higher in USD yields, and the widening of the USD-EUR spread, we can now buy back the USD receivers for less than the premium we took in at inception. In other words, we can guarantee a profit whilst maintaining (admittedly quite OTM) EUR yield downside exposure.

Trade (unwind USD leg): Buy back 2.45% USD 10y Swap Receiver expiring 21May2014 for 41c (entered at 287c). At EUR/USD spot of 1.335, we thus spend 31c of EUR notional vs. previous net premium take-in of 33c of EUR notional, guaranteeing a 2c profit. We remain long 1.80% EUR 10y Swap Receiver expiring 21May2014 (bought for 190c). Spot 10y swap ref: 3.03% (USD) and 2.19% (EUR).

USD/CNY Strangle:

Concerns about the long credit boom in China, and its possible aftermath, continue to perplex investors. We suggest buying 18m strangles on USD/CNY to hedge this risk. Here the rationale is this: in the event that China suffers a real credit crunch, in the style of Japan after 1990 or the US 2007-2009, bank recapitalisation needs could require the rapid repatriation of assets held abroad. This could create significant appreciation pressure for CNY. Alternatively, weakness in final domestic demand may necessitate a rapid exchange rate depreciation to offset weak growth elsewhere and with the USD anyway likely bid higher in an international crisis.

Trade: Buy an 18m 0.5% OTMF Strangle (expiring 5 Feb 2015, strikes 6.355 and 6.2923) on USD/CNY (spot ref. 6.122). Cost 3.145%

Credit vs. Equity:

At this point in the leverage cycle we expect equities to keep outperforming credit as corporates increasingly engage in equity friendly and credit unfriendly activity. While credit is starting to look a little compressed, equity valuations remain attractive, giving them greater scope for upside. As we have mentioned before, the beta between credit and equity tends to have a convex relationship. In other words, as markets rally and credit compresses, the scope to outperform equity decreases. By putting this trade on in calls we make it conditional on a rally, which is where we have most conviction. Also, a small gap has opened up recently in the relative relationship between 3m CDX and SPX vol with CDX options marginally more expensive as can be seen in Figure 1. Optimally we like to enter into it at zero cost so that in case of a sell-off we don't end up out of pocket.

Trade: Buy 79 SPX 21 Dec ATMF 1695 calls for 44 ticks and Sell \$100m 5y CDX IG21 18 Dec ATMF 85 receivers for 35 ticks leaving a small net premium of \$2400 [ref SPX = 1700, CDX = 80bp]

RISKS

When buying calls and puts (or receivers and payers) the maximum loss is the premium paid. When selling calls (or receivers), the maximum potential loss would occur as the index spread decreases but is limited by the index spread being floored at zero. For puts (or payers), the maximum potential loss (amount below the strike) would eventuate should the index price fall to zero. Sector index options are cash settled. The above calculations do not include any additional fees or transaction costs. Note that ratio writing would leave the writer uncovered in one leg of the trade. Past performance is not an indicator of future results.

OPTIONS RISK DISCLOSURE — PLEASE READ CAREFULLY

This section discusses possible options strategies that you may choose to employ in conjunction with the company securities discussed herein. If you choose to engage in the options transactions discussed within this document, you must have an approved options account and will be subject to certain criteria which may ultimately prevent you from engaging in certain option strategies. It is important for you as an investor to know and understand that Options do involve risk and sometimes, significant risk, therefore may not be appropriate for all investors. If you buy options, the maximum loss is the premium. If you sell put options, the risk is the entire notional below the strike. If you sell call options, the risk is unlimited. The actual profit or loss from any trade will depend on the price at which the trades are executed. The prices used herein are historical and may not be available when you order is entered. Commissions and other transaction costs are not considered in these examples.

Please speak to your Financial Advisor to ensure you have a full understanding of the risk and reward of the strategy you are considering. Strategies that are opened or closed differently than what is discussed in this document could have a significantly different outcome from what is described. It should be noted that certain Index options might have special settlement dates or settlement requirements that are different from traditional equity options. Commissions, taxes, and margin costs have not been included but will affect the outcome of any option transaction and should be considered. However, they can have a significant impact on the profitability of options transactions and should be considered carefully before entering into any option strategy. Because of the importance of tax considerations to all option transactions, the investor considering options should consult with his/her tax advisor as to how their tax situation is affected by the outcome of contemplated options transactions. Certain options trades/strategies must be executed in a margin account. Transactions executed in a margin account can require the investor to periodically deposit additional collateral into the account in order to maintain the positions. The preceding language is not a full description of all possible risks associated with options trading.

For a more complete description on the uses and risks of options, please see the document titled Characteristics and Risks of Standardized Options. If you would like an additional copy of this document please contact Citigroup Global Markets Inc., Options Department, 390 Greenwich Street, New York, NY 10013. Options are not suitable for all investors. Before entering into any transaction using listed options, investors should read and understand the current Options Clearing Corp. Disclosure Document (Characteristics and Risks of Standardized Options) at

<http://www.theocc.com/about/publications/character-risks.jsp>, http://www.theocc.com/components/docs/January_2011_ODD_Definitive_Supplement.pdf,

http://www.theocc.com/components/docs/March_2011_ODD_Definitive_Supplement.pdf, and

http://www.theocc.com/components/docs/January_2012_ODD_Definitive_Supplement.pdf. Investing in options other than Standardized Options may entail additional risks.

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.

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