

U.S. Economics Weekly: Market and Policy Comments

Room to Grow

- Despite a weakening start to the year, we have made only minor changes to the outlook with growth still expected to improve slightly on last year's upside surprise. Much of the losses to output from weather delays and disruptions can be made up quickly but some may not be recoverable. Greater, more costly energy consumption has drained an estimated \$20 billion from consumers' discretionary budgets in Q1.
- The outlook derives key support from continued highly accommodative financial conditions and ample resource availability. With an output gap very conservatively estimated between 2% and 4%, there is scope for at least a year or two of above-average gains in GDP, with unemployment expected to decline to near 6% later this year. Housing has proved especially vulnerable to weather extremes, but we expect only moderate gains in residential investment this year.
- With forecasts not dissimilar from the Fed's, we still expect an end to QE by fall, with pre-tightening operations beginning toward mid-2015. Initial rate hikes could prove too slow, but it is far too soon to judge how this risk would play out, either as sharper rate hikes later, rising price pressures or other imbalances that could eventually undermine expansion.

Robert V DiClemente

+1-212-816-7942

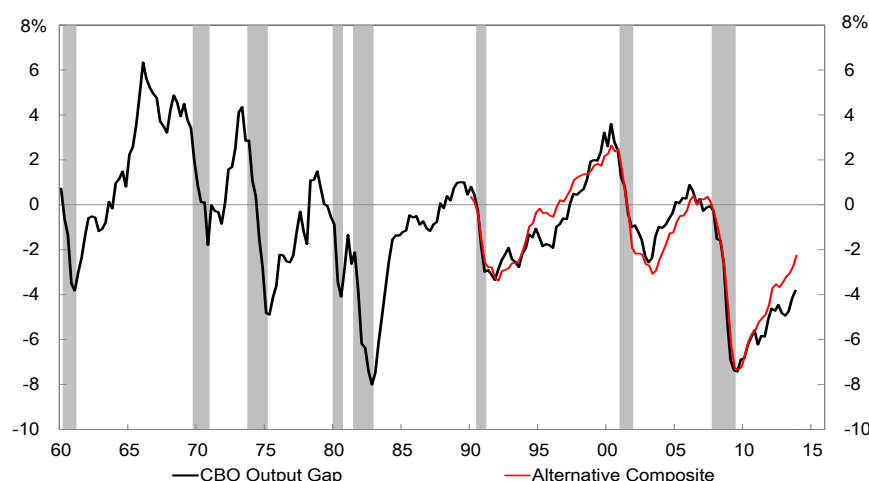
robert.diclemente@citi.com

Peter D'Antonio

Dana M Peterson

Malcolm D Spittler

Alternative Measures of the Output Gap, 1960-4Q 13



Notes: Alternative output gap measures follow "Update of 'How Big is the Output Gap?'" Justin Weidner and John C. Williams, January 5, 2013 for methodology. Shaded regions denote recessions. Sources: Congressional Budget Office, Federal Reserve Bank of San Francisco and Citi Research.

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. Certain products (not inconsistent with the author's published research) are available only on Citi's portals.

Room to Grow

Weak housing data have added to the list of temporary victims from extreme winter weather.

Markets so far have looked through the weakness, perhaps anticipating a sharp snap back as conditions normalize.

The breadth of employment gains is not consistent with headlines suggesting weakening labor markets.

Moderate job gains may be more than enough to keep unemployment falling quickly.

Despite another week of downbeat readings on the economy, our general view of the outlook remains that growth for 2014 will turn out fractionally better than last year's estimated (post-revision) 2½% gain (**Figure 1**). We cut our first-quarter GDP call to 1% last week anticipating that additional negative shocks from weather disruptions are likely to persist and grim housing data this week highlighted that risk.

Nonetheless, financial markets have tended to see through the softness for the time being. In some respects, the abruptness and violence of the falloff in key economic measures in the absence of any fundamental leads points strongly to weather as a temporary driver here. Equities, spreads and rates all have defied the apparent growth scare and are contributing to an accommodative tilt in financial conditions. Depending on when the weather relaxes its hold on activity, there is likely to be a significant snap back, but some losses probably are not recoverable and there are still likely to be some tests for confidence at least in February data due out over the next four to six weeks.

Tentatively, we are expecting Q2 GDP in a 3½% range, with risks on both sides reflecting the uncertainties on March, which historically is a volatile month, especially for employment. The jobs outlook remains relatively solid with a recent boost from a new high in small firms' hiring plans, but also the favorable financial backdrop and the usual mid-cycle slowing in productivity gains. Payroll growth in the 180,000 range survived the annual benchmark revisions and despite the letdowns in headline job growth of late, diffusion measures have been exceptionally strong. Overall 6-month diffusion was at almost 73% last month, while the comparable manufacturing measure has surged well above 60% (**Figure 2**). If there were some fundamental slowing in job growth under way, it's likely that employment gains would be narrowing, not becoming *more* pervasive.

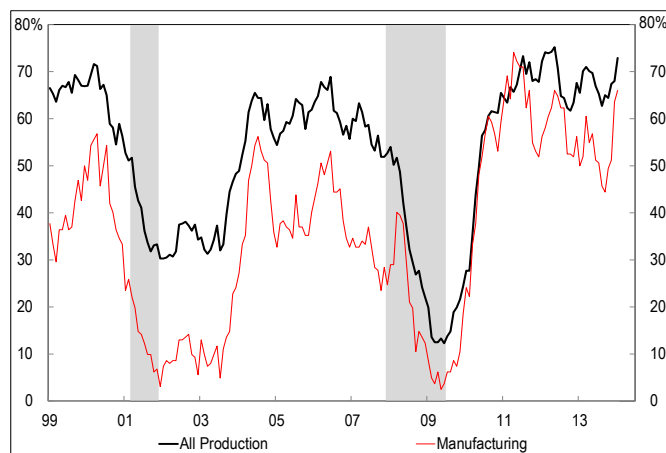
On its current trend, employment growth is well above average and possibly twice what the population is likely to generate in new jobseekers. We are expecting labor force growth of roughly one million this year, a rebound from last year's rare decline but less than we saw in 2012 (**Figure 3**). The rise in 2012 looked like the recovery process was beginning to temper the effects of permanent declines in labor force participation, but the decline last year, especially the late-year plunge, suggests that accelerating retirements have become a formidable drag. These extremes highlight why the Fed should be wary of using a quantitative threshold for unemployment in its interest rate guidance for exit strategy. On balance, we expect the unemployment

Figure 1. U.S. Economic Outlook Highlights (Annualized Percent Change Unless Noted), 2013-15F

	2013	2014F	2015F	2013		2014				2015	
	4Q/4Q E	4Q/4Q	4Q/4Q	3Q	4Q E	1Q F	2QF	3QF	4QF	1QF	2QF
Real GDP	2.5 %	2.8 %	3.1 %	4.1 %	2.2 %	1.0 %	3.5 %	3.4 %	3.1 %	3.2 %	2.8 %
Domestic Demand	1.5	3.1	3.0	2.3	1.2	2.4	3.4	3.7	3.1	3.0	3.0
Consumer Spending	2.2	3.0	3.0	2.0	2.9	2.0	3.4	3.4	3.0	3.0	3.0
Housing	6.7	10.1	12.2	10.3	-8.6	4.6	9.4	16.1	10.6	11.2	11.2
Investment	2.3	5.8	4.5	4.8	4.5	4.8	6.1	6.6	5.5	4.9	4.2
Exports	4.9	4.9	5.3	3.9	9.4	3.3	6.5	5.0	4.7	4.9	5.0
Imports	2.9	3.7	5.1	2.4	1.8	4.3	2.5	3.6	4.6	5.2	5.3
Government	-2.5	0.6	0.1	0.4	-5.6	1.9	0.6	0.1	0.0	0.1	0.1
Inventory (Contrib.)	0.8	-0.4	0.1	1.7	0.0	-1.2	-0.4	-0.4	0.1	0.3	0.0
Net Exports (Contrib.)	0.2	0.1	-0.1	0.1	0.9	-0.2	0.5	0.1	-0.1	-0.2	-0.2
Unemployment Rate (Pct.)	7.0	6.1	5.7	7.3	7.0	6.6	6.5	6.2	6.1	6.0	6.0
PCE Deflator	0.9	1.7	1.8	1.9	0.7	2.0	1.7	1.8	1.5	1.9	1.7
Core PCE Deflator	1.1	1.7	1.8	1.4	1.1	1.6	1.8	1.8	1.6	1.9	1.8

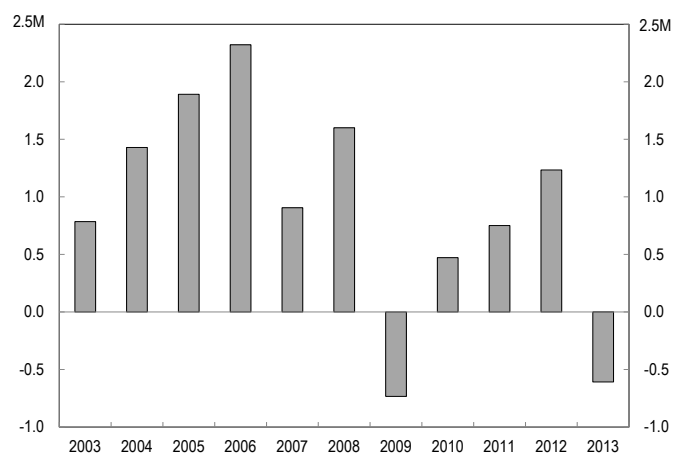
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, and Citi Research.

Figure 2. Six-Month Employment Diffusion Indexes for All Private Nonfarm Production Workers and Manufacturing, 1999-Jan 14



Note: Shaded regions denote recessions.
Source: Bureau of Labor Statistics.

Figure 3. Civilian Labor Force (Fourth Quarter to Fourth Quarter Change), 2003-13



Source: Bureau of Labor Statistics.

rate to drop to 6.1% later this year and down through 6% by 2015. The risks, however, are lower, we believe.

Ample resource availability supports the expectation of above-average economic growth even if estimates of slack are too high.

For now, the outlook for modestly above-average growth has the support of both a financial tailwind and ample resource availability as gauged by estimates of the output gap (the difference between actual GDP and the estimated full-employment pace of output). The Congressional Budget Office recently lowered its estimate of potential output but by less than we expected and by less than what some other proxies for economic slack would have suggested (**Figure 4**). CBO's measure of the gap is still almost 4%, while other estimates derived in part from surveys that track labor market conditions would place it closer to 2%. In either case, there is room for growth greater than trend for at least a year or two before capacity constraints become more pressing and/or risks to the downside would be expected to surface. Recessions don't typically begin with the economy operating below its long-run trend line.

Normal weather could give that cyclical momentum an added boost in housing this spring and beyond.

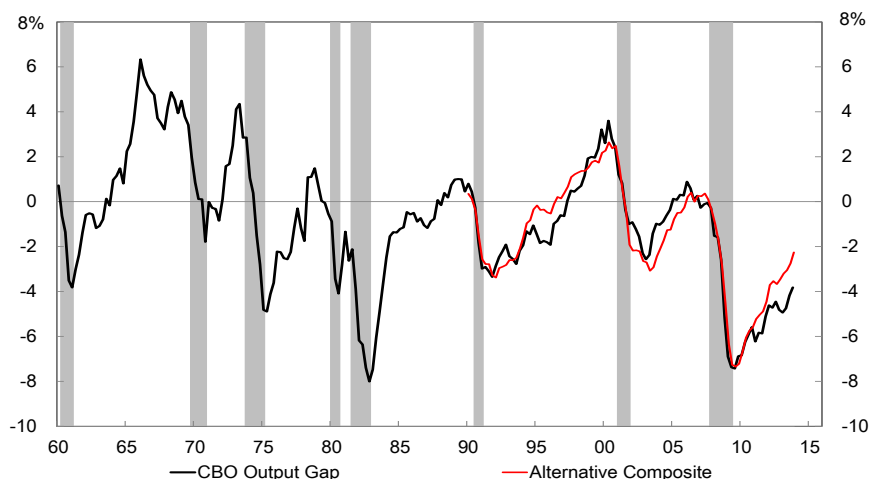
That upside could produce exaggerated gains in some sectors when winter weather normalizes (or spring arrives). Housing activity always slows in the northern winter and even a healthy market could produce declines in homebuilding of 10% to 20% in December and January before seasonal adjustment. This year, housing starts dropped nearly 30% unadjusted between November and January. That may seem like a lot but in raw numbers, that's a decline of just 25,000 units. This past month's drop was exaggerated not only by weather but by a correction from a sharp spike in apartment construction in the western region in December from the highest level since the mid-90s (**Figure 5**). In seasonally adjusted terms, that regional drop in multi-family starts accounted for nearly 40% of the overall decline in home building last month. That may not be weather-related but it seems equally unlikely that it is fundamental.

Home buyer traffic has temporarily decoupled from still favorable buying conditions.

The housing weakness has continued into February based on the results from the latest homebuilder survey, warning that traffic of prospective homebuyers has fallen back sharply this month after an already weak January. Over the past three months of extreme weather, average traffic levels have dropped noticeably in the South and Midwest, while looking through the volatility, have been at recovery highs in the West. This picture is consistent with reports on home buying conditions from consumers in the monthly Michigan survey where index readings have remained in the higher

ranges of recovery to date even as the traffic numbers have fallen off (**Figure 6**). On balance, we would expect that after a slow start in Q1, residential investment will regain momentum with double-digit gains in the back half of the year.

Figure 4. Alternative Measures of the Output Gap, 1960-4Q 13



Notes: Alternative output gap measures follow "Update of 'How Big is the Output Gap?'" Justin Weidner and John C. Williams, January 5, 2013 for methodology. Shaded regions denote recessions. Sources: Congressional Budget Office, Federal Reserve Bank of San Francisco and Citi Research.

Not all weather losses may be made up.

Not all of the near-term softening is weather-related and not all of the weather-related weakness can be made up, in our view. Slower Q1 growth reflects in part well-advertised plans by firms to moderate the rapid pace of inventory accumulation after last year's catch up. The drop in consumer spending last month may reinforce that desire. But some of the consumer spending may reflect the impact of lost unemployment benefits that won't persist or magnify but still takes a bite out of Q1 spending. Consumers also have been squeezed by the effects of cold weather on heating bills. The combination of higher prices and greater demand may be taking about \$20 billion (annual rate) out of consumer discretionary budgets in Q1. Beyond that, there are likely deadweight losses in some types of spending like restaurant meals and impulse purchases that may not be made up.

We still expect rate hikes in line with official projections around Q3 of next year.

The forecast implications for the Fed have not changed. Our baseline for policy assumes that the Fed continues to wind down QE toward completion in September, or possibly October, followed by an end to reinvestment in Q1 of next year and final pre-tightening operations toward midyear. Our forecasts are not dissimilar enough from the Fed's to expect a different liftoff for short rates than their implicit Q3 timetable. Nonetheless, we would judge this timing as too slow — as was the start to tapering — and therefore carrying risks. But it is much too soon to know how or whether those risks would play out either as sharper rate hikes later, rising price pressures, or still other imbalances that could eventually undermine growth.

The faulty unemployment threshold may give way to greater focus on inflation forecasts.

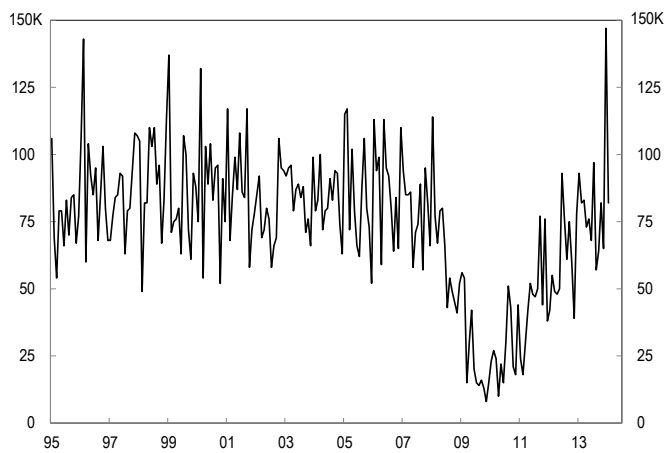
With unemployment poised to break the 6½% threshold, the current forward guidance is likely to be scratched altogether (we hope) or at least altered relatively soon. Minutes of the January FOMC meeting continued to highlight the low probability that the threshold will be reduced. We think qualitative guidance along the lines that unemployment remains well above full employment levels would be

Figure 5. Consumer View of Home Buying Conditions and the Housing Market Index, 2003-Feb 14



Source: University of Michigan and National Association of Home Builders.

Figure 6. Multi-Unit Housing Starts in the West, 1995-Jan 14



Source: Census Bureau.

the likely successor. Correspondingly, we think the Committee could move more in the direction that “several” participants proposed, namely greater emphasis on the willingness to keep rates low as long as inflation is expected to run below 2%.

February-March 2014

Monday	Tuesday	Wednesday	Thursday	Friday
17 President's Day NYSE Holiday Federal Gov't Holiday	18 Empire State Manufacturing Jan 12.5% Feb 4.5% Housing Market Index Jan 56 Feb 46	19 Mortgage Applications Producer Price Index <u>Final Demand</u> <u>ExF&E</u> Dec 0.1% 0.0% Jan 0.2% 0.2% Housing Starts and Permits Dec 1048K 991K Jan 880K 937K FOMC Minutes Released	20 Jobless Claims 2/15 336 Thous Consumer Price Index <u>Total</u> <u>ExF&E</u> Dec 0.2% 0.1% Jan 0.1% 0.1% Real Earnings (Jan) Philly Outlook Survey Jan 9.4% Feb 6.3% Leading Indicators Dec 0.0% Jan 0.3% Mortgage Delinquencies (4Q) Ann. 2-Yr. Note: \$32.0B Ann. 5-Yr. Note: \$35.0B Ann. 7-Yr. Note: \$29.0B Ann. 2-Yr. FRN: \$12.0B Auction 30-Yr. TIPS: \$9.0B	21 Existing Home Sales Dec 4.87M Jan 4.62M
24 Auction 3 & 6 Mth. Bills: \$60.0B(E)	25 S&P/CaseShiller (Dec) FHFA (Dec) Consumer Confidence Jan 80.7 Feb(E) 80.5	26 Mortgage Applications New Home Sales Dec 414K Jan(E) 380K	27 Jobless Claims 2/22 330 Thous(E) Durable Goods Orders <u>Total</u> <u>ExTrans</u> Dec -4.2% -1.3% Jan(E) -3.5% 0.3%	28 GDP & Chain Price Index 4Q 13A 3.2% 1.3% 4Q 13P(E) 2.2% 1.3% Chicago Barometer <u>PMI</u> <u>Prices</u> Jan 59.6 64.9 Feb(E) 55.0 Reuters/Michigan Sentiment FebP 81.2 FebF(E) 82.0 Pending Home Sales (Jan) Farm Prices (Feb)
March 3 Personal Income & Consumption Dec 0.0% 0.4% Jan(E) Construction PIP Dec 0.1% Jan(E) ISM Manufacturing <u>PMI</u> <u>Prices</u> Jan 51.3 60.5 Feb(E) Total Vehicle Sales Jan 15.2M Feb(E) Auction 3 & 6 Mth. Bills: \$60.0B(E)	4 Auction 1 Mth. Bill: \$40.0B	5 Mortgage Applications ADP Employment Jan 175K Feb(E) ISM Non-Manufacturing <u>PMI</u> <u>Prices</u> Jan 54.0 57.1 Feb(E) Beige Book	6 Jobless Claims 3/1 Nonfarm Productivity <u>Prod</u> <u>ULC</u> 4QP 3.2% -1.6% 4QR(E) Factory Orders <u>Ord.</u> <u>Inv.</u> Dec -1.5% 0.5% Jan(E) Flow of Funds (4Q) Ann. 3-Yr. Note: \$30.0B Ann. 10-Yr. Note: \$21.0B Ann. 30-Yr. Bond: \$13.0B	7 Employment <u>Jan</u> <u>Feb(E)</u> Payrolls 113K Unemp. Rate 6.6% Avg. Hrlly. Earn. 0.2% Priv. Wrkwd 34.4H International Trade Balance Dec -\$38.7B Jan(E) Consumer Credit Dec \$18.8B Jan(E)
10 Auction 3 & 6 Mth. Bills: \$60.0B(E)	11 Small Business (Feb) Wholesale Inventories Dec 0.3% Jan(E)	12 Mortgage Applications Federal Budget Balance Feb 13 -\$203.5B Feb 14(E)	13 Jobless Claims 3/8 Retail Sales <u>Total</u> <u>ExAuto</u> Jan -0.4% 0.0% Feb(E) Import Price Index <u>Total</u> <u>ExPetro</u> Jan 0.1% 0.4% Feb(E) Business Inventories Dec 0.5% Jan(E) Ann. 10-Yr. TIPS: \$13.0B(E) Auction 30-Yr. Bond: \$13.0B(E)	14 Producer Price Index <u>Final Demand</u> <u>ExF&E</u> Jan 0.2% 0.2% Feb(E) Reuters/Michigan Sentiment FebF(E) 82.0 MarP(E)

(E) Indicates Citigroup estimates. (A) Advance. (P) Preliminary. (F) Final. (UNCH) Unchanged. (R) Revised. Contributors: Martha Berasain and Cathy Gaeta.

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 Inc

Robert V DiClemente; Peter D'Antonio; Dana M Peterson; Malcolm D Spittler

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.

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 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 by the PRA and regulated by the FCA and the PRA. 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 Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 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 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 Büyükdere 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 ("DFS") 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 by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This material may relate to investments or services of a person outside of the UK or to other matters which are not authorised by the PRA nor regulated by the FCA and the PRA 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 authorised by the PRA and regulated by the FCA and the PRA.

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 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. Citi Research generally disseminates its research to the Firm's global institutional and retail clients via both proprietary (e.g., Citi Velocity and Citi Personal Wealth Management) and non-proprietary electronic distribution platforms. Certain research may be disseminated only via Citi's proprietary distribution platforms; however such research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the author's previously published research. Certain research is made available only to institutional investors to satisfy regulatory requirements. Individual Citi Research analysts may also opt to circulate published research to one or more clients by email; such email distribution is discretionary and is done only after the research has been disseminated.

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 Thomson Reuters.

© 2014 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, redisseminated 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
