Citi Research
Economics

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Global

Global Economic Outlook and Strategy

May 2014

- We are marginally trimming our 2014 global growth forecast to 3.0% YoY (at current exchange rates), and still expect global growth to pick up to 3.5% in 2015. Among individual countries, we are marking down our 2014 US growth forecast to 2.3% from 2.6% last month and 2.8% two months ago, with this latest downgrade reflecting mainly the softer Q1 print as well as a slower housing outlook in subsequent quarters. We expect China's authorities to introduce further modest targeted easing measures to prevent an undershoot of 7% YoY GDP growth in coming months. But we continue to have major worries over China's medium-term growth prospects given the relatively high real exchange rate, high investment/GDP ratio and surging private debt/GDP ratio.

- We expect the ECB to loosen policy at the June meeting, alongside lower inflation forecasts, with a lower refi rate, negative deposit rate and a probable extension of the full allocation fixed rate MRO window until 2016. We look for further easing subsequently, with a new conditional LTRO programme to target SMEs in 3Q and a major QE program in 4Q. The BoJ remains likely to loosen further but, as discussed last month, is unlikely to act before the autumn — and maybe even later.

- Overall inflation in advanced economies (AEs) remains very low, and consensus forecasts for AE inflation have fallen markedly over recent months. These trends partly reflect the disinflationary effects of persistent large output gaps, but also the EM slowdown and sluggish AE growth in 2012-13 — with resultant weakness in commodity prices, traded goods prices and various EM exchange rates. In addition, there have been some country-specific factors, notably lower health care inflation in the US and a reduced boost from regulatory and tax-driven price hikes in the UK. We expect that euro area inflation will continue to undershoot consensus forecasts in H2, whereas UK inflation is likely to be stable and close to target, and core inflation is likely to rise slightly in the US. However, if there is renewed disappointment in EM growth — especially China — then this could unleash new disinflation forces across AEs that expands pressure for loosening in the euro area and Japan and towards "low for longer" monetary policy elsewhere.

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With thanks to Jan Maguire

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Figure 1. Currency and Interest Rate Forecasts, as of 21 May 2014

	21 May 2014	3Q 14F	4Q 14F	1Q 15F	2Q 15F	3Q 15F	4Q 15F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.75	1.00
10-Yr. Treasuries (Period Ave.)	2.51	2.95	3.20	3.40	3.45	3.50	3.55
Euro Area: US$/€	1.37	1.38	1.36	1.35	1.36	1.38	1.39
Euro Repo Rate	0.25	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. Bunds (Period Ave.)	1.39	1.60	1.60	1.70	1.70	1.80	1.80
Japan: Yen/US$	102	102	104	106	107	108	109
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.59	0.65	0.70	0.85	0.95	0.95	0.85

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

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

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Figure 2. Forecast Highlights and Changes

■ Global	We are trimming our 2014 global growth forecast fractionally this month, mainly reflecting a lower figure for US growth.
■ United States	The snap back in growth in 2Q and 3Q already has begun, as recent data have hinted at a rebound in demand and production. We think the economy will continue to grow at an above-trend pace through the rest of 2014 and into 2015. Fiscal drag is dissipating and financial conditions are providing a significant tailwind for growth. Nevertheless, we do not expect the Fed to hike rates until mid-2015, with inflation remaining below the 2% target.
■ Euro Area	GDP growth disappointed in 1Q-14 and private sector credit growth remains anaemic. Together with evidence that inflation is still subdued, and further indications of a downward drift in long-term inflation expectations, we expect the ECB will introduce a negative deposit rate on June 5, as part of a decision to lower all key interest rates alongside new liquidity measures. QE remains our baseline in 4Q 14.
■ China	Mild credit easing did not reverse the investment-led growth downturn in April. President Xi Jinping called for China to adapt to the “new normal”, hinting at more tolerance for slower growth. Property policy easing is expected to avoid a property price crash. The RMB may strengthen moderately ahead of the China-US Dialogue in early July.
■ Japan	We continue to believe that actual inflation will undershoot the BoJ’s optimistic forecasts and that activity will be weaker than expected by the BoJ, leading to additional monetary easing in this autumn or later. However, it appears that the BoJ (and to a lesser extent the MoF) are more convinced that the sales tax hikes will not depress activity in a way that threatens the escape from deflation and the closing of the output gap than we thought earlier. Hence, the bar for additional easing appears much higher than we previously expected.
■ United Kingdom	The economy continues to grow strongly, and consensus growth forecasts are likely to keep rising. Recovery is broad-based and likely to be sustained unless there is a major external shock. We continue to expect the MPC will start to hike rates in 4Q, rather earlier than markets price in.
■ Canada	The BoC continues to judge that downside risks to the outlook remain important, despite better growth and inflation readings. Hence, we maintain our 3Q 15 call for the next rate hike.
■ Australia	Spending cuts and tax rises announced in the Federal Budget may not get past a hostile Senate. Fiscal uncertainty may weigh on business investment and hiring intentions. With the high AUD, low inflation and excess labour market slack we have pushed back the start of the RBA policy hiking cycle to 2Q 15.
■ Emerging Asia (ex China)	The export rebound is strengthening across the board, especially exports to the US. But, the lingering growth challenges in China and EM still means that the rebound is not strong by historical context. Nonetheless, optimism for structural reforms has risen in both India and Indonesia following favourable political developments, raising hopes that the slowdown in both is temporary. Inflation remains benign for most countries, except Malaysia and Philippines where output gaps are positive and central banks are posed to hike rates in 3Q.
■ CEEMEA	The CEEMEA region seems more divided than ever between i) CEE, enjoying a 'low inflation recovery', and ii) some others - Turkey, Russia, South Africa - suffering a 'high inflation slowdown'. With high-ish nominal interest rates and stable currencies, inflation in the latter group might improve in H2, but growth will stay weak.
■ Lat Am	In Brazil, we expect President Rousseff to be re-elected in the second round. Nonetheless, her current approval ratings are not high enough to rule out an alternative outcome. We have lowered our 2014 GDP growth forecast for Mexico to 3%, because of slower growth in 1H 14. However, we continue to expect a recovery for 2H 14, while we are keeping our GDP growth forecast for 2015 unchanged at 4%. In Argentina and Venezuela, the outlook remains challenging for the authorities, as activity weakens and inflation escalates.

Source: Citi Research

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

	2013	2014F	2015F
World	2.3%	3.9%	4.4%
United States	2.9	3.5	4.0
Japan	-0.6	4.1	1.2
Euro Area	-0.7	2.1	4.5
United Kingdom	-0.3	2.2	2.0
Canada	1.5	2.1	2.3
China	9.7	8.7	8.5
India	0.7	3.9	5.9
Korea	0.3	4.1	6.0
Brazil	2.3	0.0	1.5

Source: Citi Research

Overview: Will AE Inflation Weakness Last?

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We are cutting our 2014 global growth forecast marginally, chiefly reflecting softness in Q1 US growth and a less robust US housing outlook

We are marginally trimming our 2014 global growth forecast to 3.0% YoY (at current exchange rates), and continue to expect global growth to pick up to 3.5% in 2015. Among the individual countries, we are marking down our 2014 US growth forecast to 2.3% from 2.6% last month and 2.8% two months ago, with this latest downgrade reflecting mainly the weakness in Q1 activity as well as a slower housing outlook in subsequent quarters[1]. In addition, we are lifting our 2014 Japan growth forecast to 1.4% from 0.9% last month, and trimming that for 2015 to 0.9% from 1.0%, reflecting our assumption that the surge in Q1 growth (5.9% QoQ SAAR, a higher figure than we expected a month ago) will unwind, with weakness in coming quarters.

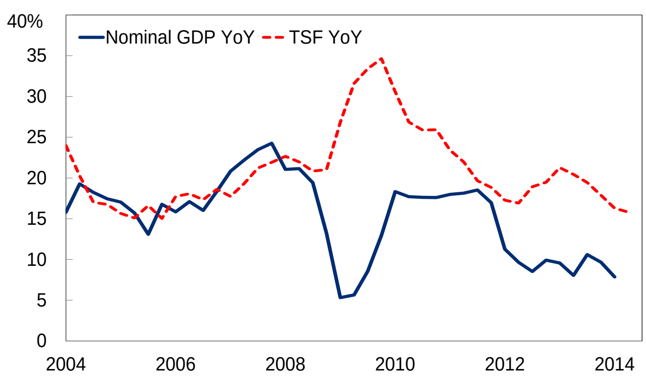
Softer activity data and low inflation open the door to renewed easing in China…

For China, early signs for Q2 growth are generally soft, with downbeat readings for industrial production, retail sales and fixed asset investment. The YoY growth of TSF (total social financing, a broad credit measure) slowed below 16% YoY in April, the lowest since 2005. With inflation falling, we continue to expect the authorities to introduce further modest targeted easing measures to prevent GDP growth slowing below 7% YoY in coming months. Overall, our forecasts for economic growth in China are unchanged this month, at 7.3% for 2014 and 7.0% for 2015.

…but we continue to have major worries over the sustainability of China's credit-fuelled growth path

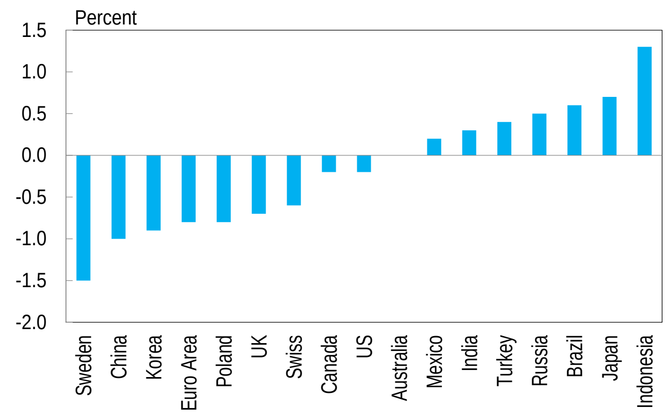
But we continue to have major worries over China's short-term and medium-term growth prospects. The credit-fuelled investment surge of recent years has already lifted the ratio of private debt/GDP (taking the gross unconsolidated debts of the household and non-financial corporate sectors) to 186% of GDP in Q3-13 (latest data) from 117% at end-2008. With TSF growth still roughly twice nominal GDP growth (7.9% YoY in Q4-13), the private debt/GDP ratio probably is still rising rapidly. That credit impulse has helped support growth, but its effectiveness seems to be diminishing, with signs that Q1 growth may have been much weaker than the officially reported number and a rising stock of unsold homes[2].

Figure 4. China — YoY Growth of Total Social Financing and Nominal GDP, 2004-14



Sources: DataStream and Citi Research

Figure 5. Global — Revisions to Consensus CPI Inflation Forecasts for 2014 Over the Last 12 Months



Sources: Consensus Economics and Citi Research

We doubt that China can maintain high growth without a continued — and ultimately unsustainable — credit boom

We doubt that China will transition back to strong export-led growth anytime soon. The recent dip in the exchange rate has helped reduce China's real trade-weighted exchange rate (CPI based, BIS data) by 5% since January, reversing the rise in H2-13. But the real exchange rate is still 28% above the 1999-2007 average, squeezing

[1] See "Housing Worries May be Policy Induced" *US Economics Weekly*, William Lee, 16 May 2014, Citi.

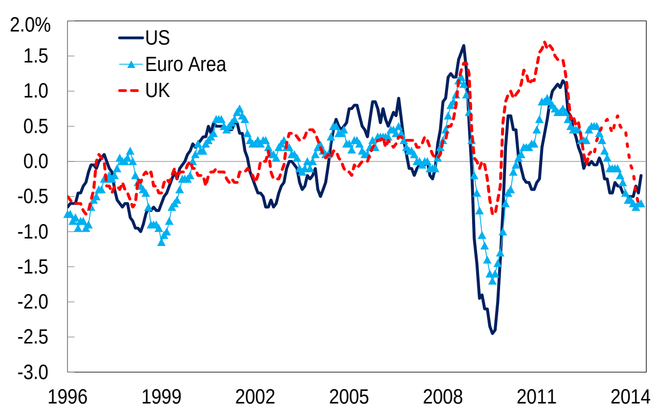
[2] See "A Reality Check on GDP Deflator and Job Creation", 9 May 2014, and "Risk of a Property Market Slump: The Tail Is Getting Fatter", 19 May 2014, Shuang Ding and Minggao Shen, Citi.

export profitability. With the FX rate levelling off at RMB6.20-6.25/USD recently, recent FX moves seem to have been aimed more at discouraging speculative inflows than seeking a meaningful improvement in external cost competitiveness. But the lack of a major impulse from net trade adds to risks of a sharper economic slowdown in China if and when the authorities really seek to rein in the credit boom.

AE inflation is low and consensus forecasts for AE inflation have fallen sharply in recent months

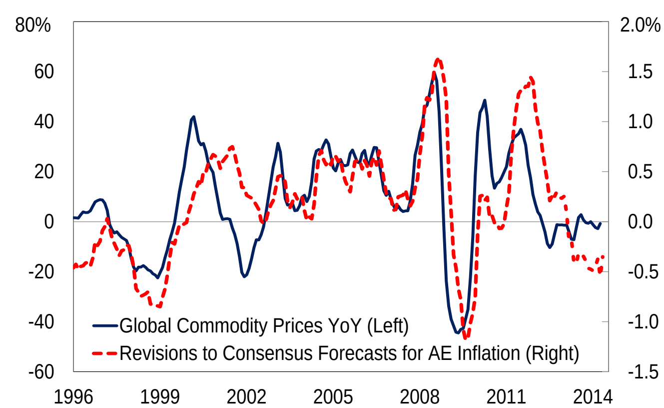
Overall inflation in advanced economies (AEs) remains very low, and consensus forecasts for AE inflation have fallen markedly over recent months. On the IMF data, overall AE inflation was just 1.3% YoY in March, down from 1.6% YoY at end-2012 and 2.5% YoY at end-2011. In turn, AE consumer price inflation in general has undershot central bank forecasts in recent quarters, and consensus inflation forecasts have fallen unusually sharply across a wide range of AEs. Over the last 12 months, the consensus for 2014 CPI inflation has fallen by 0.2 percentage points in the US, 0.8pp in the euro area, 0.7pp in the UK, 0.6pp for Switzerland and by 1.5pp for Sweden. At first glance, Japan might seem like an outlier, with the consensus for 2014 CPI inflation up by 0.7pp over the last year: but this includes the recent sales tax hike (which would add 1.6% to prices if fully passed on[3]). Allowing for the possibility that this tax hike was not fully anticipated a year ago, consensus expectations for underlying inflation in Japan may also have fallen slightly. Overall, consensus forecasts for AE inflation ex Japan in the current and next year have fallen by 0.4 percent over the last 12 months[4]. In the last 20 years, the only episodes with greater drops in consensus inflation forecasts were 1998-99 (after the Asian EM crisis) and 2009 (Great Financial Crisis). Moreover, we suspect that the consensus for EMU has still not fallen enough.

Figure 6. US, Euro Area, UK— 12-Month Sum of Revisions to Consensus Inflation Forecasts, 1996-2014



Sources: Consensus Economics and Citi Research

Figure 7. Global — Commodity Prices and 12-Month Sum of Revisions to Advanced Economy Inflation Forecasts, 1996-2014



Note: We show the rolling 12-month sum of revisions to consensus forecasts for inflation in the US, Euro Area, UK, Canada and Sweden in the current and next year, GDP-weighted. Sources: IMF, Consensus Economics and Citi Research

The trends in consensus expectations for EM inflation are more varied

The picture across EMs is far more varied, with the consensus forecast for 2014 inflation down by roughly 1 percent over the last year in China and Korea, but still up from a year ago in India and Indonesia (although inflation forecasts for these countries have edged down recently). By contrast, consensus inflation forecasts have continued to rise in recent months for Russia and Brazil. These differences partly reflect specific tax and subsidy measures, but also the CPI impact of sizeable FX depreciation in some EMs over the last year.

3 See "*Tokyo core CPI rose 2.7%, slightly undershooting market forecast*", Kiichi Murashima and Naoki Iizuka, 25 April 2014, Citi.

4 We use the rolling 12-month sum of revisions to consensus forecasts for inflation in the US, Euro Area, Japan, UK, Canada and Sweden in the current and next year, GDP-weighted.

The persistent and large output gaps across most AEs continue to cap inflation…

In our view, the widespread weakness in AE inflation reflects a mix of common factors and country-specific factors, some temporary and some persistent. The first and most obvious factor is the disinflationary effects of persistent large output gaps across most AEs: the IMF estimates the average output gap among AEs at 2-2½% of potential GDP this year, and that the level of GDP remains below potential in all AEs apart from New Zealand and Malta. However, in general, AE output gaps have not expanded in the last year. Hence, while output gaps help explain why inflation is low, this factor probably does not explain why inflation has slowed so much recently.

…while recent downward pressures also reflect the 2012-13 EM slowdown

The other key factor has been the EM slowdown and sluggish AE growth in 2012-13 — and the resultant slide in commodity prices and various EM exchange rates. The IMF broad commodity price index fell by 11% from early-2012 to mid-2013, with the CRB index in USD terms down by 20% from early-2011 to late-2013. As Figure 7 shows, revisions to consensus AE inflation forecasts tend to broadly follow swings in commodity prices. Note that this link probably partly reflects commodities' direct role in costs, but perhaps also an indirect link, in that commodity prices also often are a timely guide to global growth and capacity pressures that affect AE inflation more widely through various channels, including traded goods prices and FX swings. CPB data suggest that unit values (ie prices) for traded manufactured goods fell 2.0% YoY in February, having been flat YoY a year earlier. In turn, prices of consumer durables (which have a relatively high import content), have weakened markedly in both the US and euro area. In addition, there has been a range of idiosyncratic factors that have helped cap inflation in individual countries.

Disinflationary effects from the output gap and FX swings are particularly large in the euro area…

- In the euro area, disinflationary pressures from the large output gap and sluggish economy are particularly powerful, with the EC, IMF and OECD all putting the output gap at 2-3½% of GDP this year. Unit labour costs rose by just 0.6% YoY in Q4-13 and have risen by an average of only 0.7% YoY over the last 5 years. In addition, with the appreciation of the euro (up 12% trade-weighted since Draghi's "*whatever it takes*" speech in July-2012), prices for imported goods (measured by unit values) are down by 5.1% since Aug-2012. In the CPI, the drop in import prices has helped to pull the inflation rate of non-energy consumer goods (which have a relatively high import content) down to just 0.1% YoY in April from 0.8% a year earlier, with consumer durables prices down 0.8% YoY — the sharpest drop since 2009. Services inflation remains low (1.3% YoY in Feb-April), but its trend has slowed only slightly over the last year.

…while US inflation additionally has been depressed by weakness in medical costs

- In the US, the inflation rate of health care services (which have a weight of 17.0% in PCE) has tumbled from 1.9% YoY in Mar-13 to 0.8% YoY in Mar-14 (the lowest since detailed monthly data began in 2000). The inflation rate of pharmaceuticals and other medical products also weakened abruptly in early 2013 and, while it has recently edged up again, it remains below the 2012 pace. These trends may reflect the sequester, which appears to have dampened spending and pricing of health care. This factor should become less of an issue going forward as the abrupt retrenchment of the sequester becomes more distant.

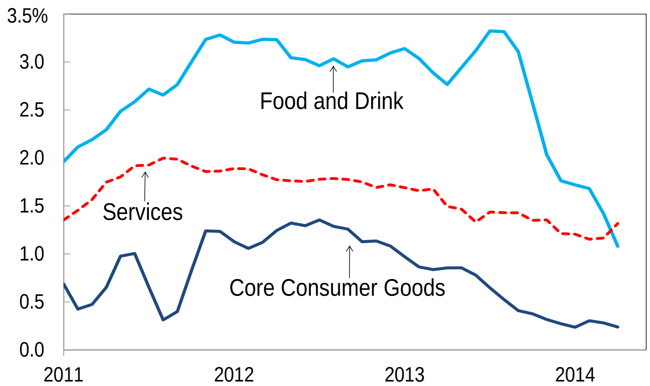
The tax- and regulatory-driven boost to UK inflation has declined…

- In the UK, the prior boost to inflation from taxes, utilities and energy surcharges has faded, partly because the government acted to limit the extent to which its own policies were eroding real incomes and impeding recovery. Moreover, prior weakness in commodity prices has helped cap food and petrol prices. The joint contribution to YoY CPI inflation from utilities, education, petrol, tobacco, food and drink is down from 1.5 percent In April-13 to 0.6 percent in April-14. This has more than accounted for the last year's inflation slowdown (from 2.4% YoY in April 2013 to 1.8% in April 2014). Excluding the direct impact of these items, inflation actually edged up from 1.2% YoY in April-2013 to 1.7% in April-2014 (of course, this may be indirectly affected by the idiosyncratic factors noted above).

…while weakness in Sweden's headline CPI inflation rate has been exaggerated by lower mortgage payments

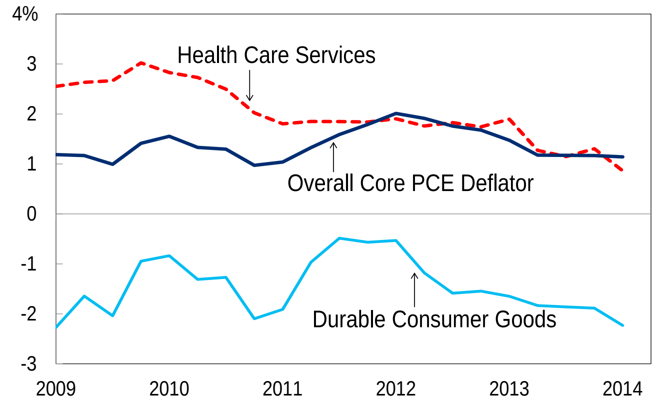
- In Sweden, the slide in the headline inflation rate (which briefly turned negative in Jan-Mar this year) was exaggerated by falling mortgage rates — a result of low fixed rates. The underlying CPIF inflation rate, which measures inflation with a fixed interest rate, remains low, at 0.5% YoY in April (similar to a year ago) and is subdued (as in many other AEs) by weak import prices and a large output gap — but does not actually show deflation[5].

Figure 8. Euro Area — YoY CPI Inflation, 3-Month Averages, 2011-14



Sources: Eurostat and Citi Research

Figure 9. US — Split of YoY PCE Inflation, 2009-14



Sources: Bureau of Economic Analysis and Citi Research

Overall AE Inflation probably is near its low, but trends will probably be more diverse in coming months

With commodity prices rebounding recently (the CRB is up 10% since the start of the year), we suspect that overall AE inflation will stay low in coming months — but overall probably will not slow significantly further. Moreover, AE inflation trends in H2 this year are likely to show a much more varied picture than the uniform weakness evident in H1. For the US, we expect YoY PCE core inflation to pick up by a half point by yearend, as the disinflationary impact from health care and external costs declines. In the UK, with the strong economic upturn lifting capacity use, and signs of a pickup in pay, we believe that the drop in inflation has largely run its course, with CPI inflation likely to stabilise at about 1¾% YoY in the rest of this year and, barring a new disinflationary shock, rise to roughly match the 2% target in 2015. By contrast, in the euro area, we expect the large output gap and further effects of the strong euro will keep euro area inflation well below consensus, at below 1% YoY on average in 2014 and 2015 — and below 1½% even in 2016-17.

We continue to expect ECB and BoJ easing this year, with BoE hiking this year and Fed tightening in 2015

Against this backdrop, we still expect the ECB to cut rates at the June meeting, and implement some credit easing measures plus a major QE programme in H2 this year. We continue to expect further BoJ QE but, as discussed last month, believe this is likely to come in the autumn or later given the BoJ's relatively bullish assessment of growth prospects and nearterm difficulties in judging the economy's underlying path after the surge in Q1 We expect the BoE to start to hike rates late this year, with Fed tightening in H2-15.

Renewed growth disappointment in EMs could trigger new disinflationary pressures in AEs

Nevertheless, there are considerable downside risks for AE inflation in the next couple of years. In particular, if there is renewed disappointment in EM growth — especially China — then this could unleash new disinflation pressures across AEs, perhaps by some mix of softer commodity prices, currency swings and lower domestic cost pressures in some EMs. If so, pressure for QE in the euro area and Japan would expand further, while the tightening that we project for the UK (from late this year) and US (next year) might be scaled down or delayed.

[5] See "Not True Deflation, but Sustained "Low-flation in Sweden", Tina Mortensen, 1 May 2014, Citi.

Figure 10. Selected Countries — Economic Forecast Overview (Percent), 2013-2018F

	GDP Growth						CPI Inflation						Central Bank Policy Rates					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Global	2.5	3.0	3.5	3.7	3.6	3.4	2.6	2.9	3.1	3.4	3.4	3.5	2.14	2.36	2.49	2.88	3.36	3.59
Based on PPP weights	3.0	3.4	3.9	4.1	4.1	4.0	3.1	3.3	3.5	3.9	3.9	3.9	2.71	2.98	3.19	3.56	3.97	3.99
Industrial Countries	1.2	2.0	2.4	2.5	2.3	2.0	1.3	1.5	1.7	1.6	1.5	1.7	0.46	0.37	0.56	1.15	1.84	2.40
United States	1.9	2.3	3.1	3.2	2.7	2.2	1.1	1.5	1.8	2.2	2.3	2.2	0.25	0.25	0.50	1.65	3.00	3.75
Japan	1.6	1.4	0.9	1.2	1.2	1.0	0.4	2.8	1.7	1.6	0.7	1.0	0.10	0.10	0.10	0.10	0.10	0.30
Euro Area	-0.4	1.2	1.8	1.9	1.9	1.8	1.4	0.6	0.9	1.2	1.3	1.8	0.50	0.16	0.10	0.11	0.42	0.92
Canada	2.0	2.4	2.7	2.7	2.6	2.4	0.9	1.8	2.0	2.0	2.0	2.0	1.00	1.00	1.19	2.13	2.50	2.75
Australia	2.4	2.9	2.9	3.1	3.4	3.3	2.4	2.7	2.5	2.4	2.4	2.4	2.69	2.50	3.44	4.44	4.50	4.75
New Zealand	2.7	3.2	2.7	2.4	2.6	2.7	1.1	2.1	2.2	2.2	2.2	2.4	2.50	3.31	4.38	4.75	4.75	5.00
Germany	0.5	2.2	2.4	2.5	2.3	2.1	1.5	1.3	1.8	2.1	2.3	2.4						
France	0.4	0.8	1.4	1.7	2.0	1.9	1.0	0.8	1.2	1.4	1.4	1.5						
Italy	-1.8	0.3	1.2	1.1	1.0	0.8	1.3	0.3	-0.2	0.2	0.8	1.2						
Spain	-1.2	1.0	1.6	2.0	1.9	1.7	1.5	0.0	0.2	0.4	0.5	0.9						
Greece	-3.9	-0.8	1.2	1.5	1.5	1.6	-0.9	-1.6	-1.7	-1.0	-0.3	0.9						
Ireland	-0.3	2.1	3.3	3.0	3.0	3.0	0.4	0.8	1.0	1.1	1.6	1.7						
Portugal	-1.3	1.2	2.0	1.7	1.7	1.7	0.4	-0.4	-0.6	0.0	0.4	1.0						
Netherlands	-0.8	0.6	1.4	1.7	2.0	2.1	2.6	0.7	1.3	1.5	1.6	1.8						
Belgium	0.2	1.3	1.5	1.6	2.0	2.1	1.2	0.6	1.1	1.8	1.6	1.9						
Denmark	0.4	1.0	1.5	1.8	1.7	1.9	0.8	1.5	1.7	1.8	1.9	2.0	0.20	0.20	0.20	0.25	0.55	1.10
Norway	2.0	2.0	2.2	2.5	3.1	2.9	2.1	2.0	2.1	2.1	2.2	2.4	1.50	1.50	1.71	2.08	2.74	3.33
Sweden	1.5	2.6	2.7	2.9	2.9	2.7	0.0	0.1	1.2	2.2	2.3	2.0	0.99	0.64	0.73	1.17	1.93	2.55
Switzerland	2.0	2.2	2.3	2.6	2.0	2.0	-0.2	-0.2	0.9	1.1	1.2	1.2	0.00	0.00	0.00	0.00	0.25	1.00
United Kingdom	1.7	3.5	3.6	2.6	2.1	2.2	2.6	1.7	2.0	2.1	2.0	2.0	0.50	0.54	1.67	2.50	2.71	3.21
Emerging Markets	4.5	4.5	5.0	5.4	5.5	5.4	4.7	5.0	5.2	5.1	5.1	4.9	4.78	5.32	5.37	5.48	5.58	5.27
China	7.7	7.3	7.0	7.5	7.3	7.0	2.6	2.6	3.2	3.8	4.0	3.8	3.00	3.00	3.00	3.13	3.50	3.75
Taiwan	2.1	3.2	3.8	4.2	4.5	4.5	0.8	1.2	2.0	1.8	1.8	1.8	1.88	1.88	2.19	2.63	3.13	3.63
India	4.9	5.6	6.5	7.0	7.1	7.1	9.5	8.0	6.5	6.5	6.5	6.5	7.75	8.00	8.00	7.50	7.00	7.00
Indonesia	5.8	5.3	5.5	5.6	5.8	5.7	6.4	6.5	6.7	5.4	5.3	5.5	4.65	5.81	6.00	6.00	6.00	6.00
Korea	3.0	3.9	4.0	4.0	3.6	3.8	1.3	2.1	3.1	3.1	3.0	2.9	2.56	2.50	3.13	3.75	4.13	4.25
Czech Republic	-0.9	1.9	2.6	3.0	3.1	3.2	1.4	0.9	2.1	1.7	2.0	2.0	0.05	0.05	0.08	0.75	1.54	2.54
Hungary	1.1	2.5	1.9	1.6	1.7	2.0	1.7	0.5	2.6	3.0	2.5	1.9	4.38	2.40	3.08	3.77	4.00	4.00
Poland	1.6	3.4	3.6	3.6	3.5	3.2	0.9	0.8	2.5	2.7	2.5	2.5	2.95	2.50	2.77	3.50	3.88	3.96
Romania	3.5	3.0	3.4	3.7	3.7	3.7	4.0	2.0	3.4	2.6	2.5	2.5	4.69	3.50	4.50	5.00	5.00	5.00
Russia	1.3	1.0	2.3	2.5	2.5	2.6	6.8	6.8	5.8	5.6	5.3	5.1	5.50	6.96	6.08	5.15	4.83	4.56
Turkey	4.0	2.2	3.5	3.8	4.0	4.0	7.5	8.6	7.9	7.3	7.1	6.7	6.16	10.69	10.63	9.75	9.50	9.00
Nigeria	6.6	6.4	6.4	7.0	6.2	6.8	8.5	8.8	10.6	10.8	9.9	9.2	11.75	11.75	12.50	11.25	9.00	9.00
South Africa	1.9	2.3	2.9	3.3	4.0	4.1	5.8	6.5	5.8	5.5	5.9	5.9	5.00	5.79	6.42	7.92	8.00	8.00
Argentina	3.0	0.0	1.0	-2.0	3.5	3.0	10.6	NA	31.8	42.5	40.0	25.0	17.16	26.37	34.16	37.00	37.00	0.00
Brazil	2.3	1.3	1.8	2.5	3.0	3.0	6.2	6.4	6.3	5.9	5.5	5.5	8.44	10.92	12.33	12.00	11.50	11.50
Mexico	1.1	3.0	4.0	4.4	4.5	4.6	3.8	4.0	3.6	3.6	3.6	3.6	3.94	3.50	3.75	4.90	5.17	6.21
Venezuela	1.3	-1.0	1.9	1.9	1.9	1.9	38.5	62.5	82.1	60.0	60.0	60.0	14.50	14.50	14.50	14.80	14.80	14.80

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

Figure 11. Selected Countries — Economic Forecast Overview (Percent), 2013-2018F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Global	0.7	0.8	0.7	0.3	0.1	0.0	-4.1	-3.6	-3.2	-2.9	-2.7	-2.2	88	86	86	85	84	83
Based on PPP weights	*0.4*	*0.5*	*0.4*	*0.1*	*-0.2*	*-0.2*	*-4.0*	*-3.7*	*-3.3*	*-3.0*	*-2.9*	*-2.4*	*80*	*80*	*80*	*79*	*78*	*77*
Industrial Countries	-0.2	0.1	0.2	0.1	0.1	0.2	-5.5	-4.6	-3.7	-3.3	-3.0	-2.8	115	113	113	112	111	111
United States	-2.3	-2.0	-1.5	-1.8	-1.7	-1.4	-7.3	-6.4	-5.6	-5.6	-5.4	-5.4	105	106	106	106	106	106
Japan	0.7	-0.2	-0.2	0.0	0.2	0.2	-9.8	-8.0	-6.2	-5.8	-5.4	-5.0	241	243	247	248	251	254
Euro Area	2.4	2.9	2.9	2.8	2.6	2.4	-3.0	-2.6	-2.0	-1.5	-1.1	-0.7	95	97	97	96	94	92
Canada	-3.2	-2.4	-2.0	-1.9	-1.9	-2.1	-0.9	-0.1	0.3	0.4	0.4	0.4	97	95	93	90	88	85
Australia	-2.9	-2.5	-2.4	-2.4	-2.4	-2.1	-1.2	-3.0	-2.1	-1.4	-1.0	0.0	30	32	34	33	33	34
New Zealand	-3.4	-4.2	-5.4	-5.0	-5.4	-6.6	-2.9	-1.6	-0.4	0.5	1.2	2.2	40	39	36	37	37	34
Germany	7.4	7.1	6.8	6.3	5.9	5.4	0.0	0.1	0.3	0.4	0.5	0.7	78	77	74	71	68	65
France	-1.4	-0.6	0.1	0.6	0.3	0.0	-4.3	-4.1	-3.5	-2.7	-1.7	-1.0	93	97	98	98	96	94
Italy	1.0	1.6	1.5	1.4	1.3	1.3	-2.8	-3.0	-2.7	-2.0	-1.4	-0.8	133	138	139	138	138	135
Spain	0.8	1.0	0.9	0.9	0.9	0.9	-7.1	-5.8	-4.8	-3.6	-2.9	-2.3	94	99	102	103	104	104
Greece	0.8	1.5	1.8	1.7	1.7	1.7	-12.7	-2.5	-2.8	-2.0	-1.6	-1.1	175	182	185	185	183	180
Ireland	6.6	8.6	8.7	7.8	7.0	6.1	-7.2	-5.4	-2.8	-2.1	-1.3	-0.6	124	122	121	117	113	108
Portugal	0.5	1.5	1.1	1.2	1.3	1.3	-5.0	-4.0	-2.8	-2.4	-2.2	-1.9	129	136	133	131	130	129
Netherlands	10.4	10.5	10.2	9.8	9.3	8.9	-2.4	-2.8	-2.2	-1.7	-1.3	-0.9	74	75	75	74	73	71
Belgium	-1.6	1.0	1.7	1.8	1.6	1.3	-2.7	-2.4	-2.0	-1.2	-0.4	0.5	101	102	102	99	96	92
Denmark	7.4	6.8	5.8	5.5	5.7	5.7	-1.2	-1.3	-2.4	-1.4	-1.0	-0.9	46	46	47	47	46	45
Norway	10.6	11.1	11.4	11.9	12.1	12.5	11.4	11.9	11.0	10.0	10.0	9.0	NA	NA	NA	NA	NA	NA
Sweden	6.2	5.9	5.6	5.6	5.4	5.3	-1.3	-1.6	-0.8	-0.3	0.5	1.2	39	40	39	37	35	32
Switzerland	12.0	12.2	11.7	12.6	10.5	10.5	0.2	0.7	1.1	1.6	1.6	0.9	48	46	45	44	43	44
United Kingdom	-4.4	-3.6	-3.7	-3.8	-3.5	-3.2	-7.1	-5.6	-3.8	-1.7	-0.9	0.0	94	97	96	95	92	90
Emerging Markets	1.8	1.9	1.2	0.6	0.1	-0.1	-2.0	-2.2	-2.4	-2.2	-2.3	-1.5	45	45	45	45	44	44
China	2.0	2.0	1.5	0.8	0.5	0.5	-1.9	-2.1	-2.0	-2.0	-2.0	-2.0	54	54	53	52	51	50
Taiwan	11.7	11.0	10.2	8.0	8.0	8.0	-1.4	-1.4	-0.8	-0.6	-0.6	-0.6	40	40	39	39	39	38
India	-2.0	-2.3	-2.5	-2.4	-2.5	-2.5	-6.9	-6.7	-6.5	-6.2	-5.9	-5.5	70	68	66	65	63	61
Indonesia	-3.3	-2.4	-2.1	-1.7	-1.5	-1.6	-2.2	-2.3	-1.7	-1.9	-2.0	-2.0	24	26	25	25	25	25
Korea	6.1	3.9	2.9	2.2	1.5	0.7	1.0	0.9	1.5	1.7	1.9	1.7	33	31	29	27	26	25
Czech Republic	-1.4	0.2	0.8	1.0	1.0	-0.3	-1.5	-2.0	-2.5	-2.4	-2.2	-2.0	46	45	45	46	46	45
Hungary	2.9	2.6	2.2	2.0	1.8	1.6	-2.2	-2.9	-2.9	-2.9	-3.0	-3.0	79	80	80	80	79	78
Poland	-1.3	-2.5	-3.7	-4.5	-4.6	-4.3	-4.3	5.2	-2.7	-2.6	-2.6	-2.6	54	48	47	46	46	45
Romania	-1.1	-2.5	-4.2	-4.5	-4.5	-4.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	43	42	41	40	39	39
Russia	1.5	2.7	1.9	0.6	-0.4	-1.4	-2.1	-4.4	-4.9	-1.2	-1.2	-1.2	7	10	13	13	12	12
Turkey	-7.9	-5.2	-5.3	-4.9	-4.9	-4.7	-1.2	-2.8	-3.2	-3.3	-3.3	-3.3	39	38	37	36	35	33
Nigeria	3.8	2.4	1.4	1.1	1.1	0.6	-1.4	-1.7	-1.6	-1.5	-1.4	-1.3	NA	NA	NA	NA	NA	NA
South Africa	-5.8	-4.9	-4.2	-3.4	-3.1	-2.7	-4.3	-4.2	-4.2	-3.7	-3.0	-2.0	46	47	48	49	49	49
Argentina	-0.7	-1.1	-1.2	3.0	1.0	1.0	-1.9	-2.4	-2.4	0.0	-0.5	-1.0	31	38	46	44	42	41
Brazil	-3.7	-3.8	-3.8	-3.8	-3.8	-3.8	-3.3	-3.9	-3.4	-3.3	-3.2	-3.2	57	57	58	58	58	58
Mexico	-1.8	-2.1	-1.8	-1.4	-1.5	-1.5	-2.4	-3.5	-2.5	-2.0	-2.0	-2.0	38	38	38	37	37	37
Venezuela	3.3	4.1	5.1	3.0	3.0	3.0	-11.9	-11.2	-10.3	-12.0	-12.1	-11.5	42	41	40	41	42	43

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

Figure 12. Selected Countries — Changes in Economic Forecasts (Percentage Points), 2013-2015F

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Global		-0.1						0.1	0.1		0.1	
Based on PPP weights						*-0.1*	*-0.1*		*0.1*			
Industrial Countries		-0.1				0.1		0.1	0.2			
United States		-0.3	-0.1		0.1							
Japan	0.1	0.5	-0.1		-0.2	0.1			0.1			
Euro Area		-0.1						0.4	0.6	0.1		0.1
Canada		0.1						0.8	0.8			
Australia												
New Zealand												
Germany								0.4	1.3	0.1	0.1	0.3
France	0.1	-0.2	-0.1			-0.1				-0.1	-0.2	-0.3
Italy		-0.3	0.1					0.3	0.3	0.2	-0.1	
Spain								0.2	0.2			-0.3
Greece								-0.4	-0.6		0.1	-0.2
Ireland		0.3	0.2					-0.1	-0.3		0.1	0.2
Portugal	0.1	-0.3			0.1	0.1	0.1	-0.7	-1.4	-0.1	-0.2	
Netherlands		-0.7			0.2		0.1	0.4	0.3	0.1	0.2	-0.5
Belgium					0.2	0.1		-0.1		-0.1	-0.1	-0.1
Denmark							0.1					
Norway	-0.1	0.1	0.1					-0.1	-0.1			
Sweden						-0.1				0.1		0.2
Switzerland			0.3		-0.3	-0.1			0.4			0.2
United Kingdom						0.1		-0.1	-0.1			
Emerging Markets					0.1	-0.1	-0.1		-0.1		0.1	
China												
Taiwan												
India			0.3			-1.0						
Indonesia					0.1	-0.5						
Korea						0.1		0.1	-0.1			
Czech Republic												
Hungary		0.2	0.2		-0.2	-0.3		-0.5		0.1		
Poland					-0.3	-0.2						
Romania					-0.1	-0.1						
Russia					0.4	0.3		0.6	0.3			
Turkey					0.5	0.5						
Nigeria												
South Africa												
Argentina	-1.9	-1.0	-0.5			1.3	-0.1	-0.6	-0.8	0.5	0.7	-0.1
Brazil					-0.1			0.3	0.3			
Mexico		-0.3			-0.1	-0.1						
Venezuela												

Source: Citi Research

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

	10-Year Yields						Exchange Rates Versus U.S. Dollar*						Exchange Rate Versus Euro					
	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F	2013	2014F	2015F	2016F	2017F	2018F
Industrial Countries																		
United States	2.35	3.00	3.50	3.75	4.10	4.25	NA	NA	NA	NA	NA	NA	1.33	1.38	1.37	1.41	1.41	1.41
Japan	0.71	0.65	0.90	1.25	1.50	1.50	98	102	107	111	113	114	130	141	147	157	159	160
Euro Area	1.60	1.63	1.75	2.00	2.25	2.50	1.33	1.38	1.37	1.41	1.41	1.41	NA	NA	NA	NA	NA	NA
Canada	2.26	2.60	3.33	3.60	3.90	3.90	1.03	1.10	1.13	1.14	1.13	1.11	1.37	1.52	1.55	1.61	1.59	1.57
Australia	3.65	4.45	4.84	5.50	5.50	5.80	0.97	0.94	0.95	0.94	0.93	0.93	1.37	1.47	1.45	1.50	1.51	1.52
New Zealand	3.98	5.04	5.70	5.65	5.80	6.00	0.82	0.87	0.86	0.84	0.81	0.78	1.62	1.59	1.60	1.67	1.74	1.82
Germany	1.60	1.63	1.75	2.00	2.25	2.50												
France	2.12	2.14	2.15	2.40	2.65	2.90												
Italy	4.23	3.18	2.95	2.85	2.95	3.10												
Spain	4.48	3.19	2.95	3.05	3.15	3.30												
Netherlands	1.89	1.90	2.00	2.25	2.50	2.75												
Belgium	2.33	2.23	2.25	2.50	2.75	3.00												
Denmark	1.73	1.70	1.88	2.15	2.50	2.75	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.57	2.83	2.70	2.85	3.10	3.35	5.88	5.88	5.75	5.43	5.26	5.11	7.81	8.10	7.88	7.64	7.41	7.19
Sweden	2.10	2.20	2.41	2.60	2.75	3.00	6.51	6.58	6.65	6.34	6.13	5.92	8.65	9.07	9.12	8.92	8.63	8.34
Switzerland	0.82	0.95	1.06	1.08	1.28	1.48	0.93	0.89	0.92	0.92	0.92	0.92	1.23	1.23	1.27	1.29	1.29	1.29
United Kingdom	2.34	3.05	3.60	3.75	3.90	4.05	1.56	1.71	1.72	1.74	1.76	1.78	0.85	0.81	0.80	0.81	0.80	0.79
Emerging Markets																		
China	3.68	4.41	4.33	4.45	4.83	5.08	6.15	6.21	6.05	6.01	6.03	6.05	8.17	8.56	8.29	8.46	8.49	8.51
Taiwan	1.46	1.60	1.89	2.19	2.49	2.79	29.68	30.40	30.04	29.66	29.13	28.60	39.43	41.91	41.19	41.76	41.03	40.25
India	8.25	8.50	8.50	8.00	7.50	7.50	58.57	60.20	62.40	62.11	59.17	56.10	77.80	82.98	85.55	87.45	83.34	78.95
Indonesia	6.97	8.34	8.75	8.75	8.75	8.75	10449	11617	11981	11592	10842	10075	13881	16015	16427	16322	15270	14178
Korea	3.00	3.46	4.03	4.30	4.55	4.75	1095	1042	1016	982	982	984	1454	1436	1393	1383	1383	1384
Czech Republic	2.09	2.04	2.27	2.61	2.97	3.20	19.6	20.0	19.9	18.7	18.2	17.7	26.0	27.5	27.2	26.3	25.6	24.9
Hungary	5.92	5.46	5.98	6.27	6.50	6.50	223	226	233	231	232	234	297	311	319	325	327	329
Poland	4.05	4.13	4.58	5.07	4.95	0.64	3.16	3.06	3.05	2.84	2.81	2.79	4.20	4.22	4.18	4.00	3.96	3.93
Romania	NA	NA	NA	NA	NA	NA	3.33	3.25	3.23	3.11	3.04	2.98	4.42	4.48	4.43	4.38	4.28	4.20
Russia	NA	NA	NA	NA	NA	NA	31.9	36.3	37.7	37.2	37.2	37.2	42.3	50.0	51.7	52.3	52.4	52.3
Turkey	NA	NA	NA	NA	NA	NA	1.91	2.13	2.28	2.39	2.38	2.36	2.53	2.94	3.13	3.37	3.35	3.32
Nigeria	NA	NA	NA	NA	NA	NA	159	164	169	171	175	180	212	226	231	241	246	253
South Africa	7.20	8.00	8.04	8.14	8.38	8.77	9.65	10.61	10.98	10.78	10.68	10.58	12.82	14.63	15.06	15.18	15.04	14.88
Argentina	NA	NA	NA	NA	NA	NA	5.45	8.75	11.81	18.23	25.82	30.98	7.24	12.07	16.19	25.66	36.37	43.60
Brazil	9.98	12.71	13.66	13.08	12.25	12.25	2.16	2.34	2.56	2.68	2.80	2.91	2.87	3.22	3.51	3.77	3.94	4.10
Mexico	5.67	6.63	7.60	7.66	7.65	7.65	12.8	13.0	12.9	12.7	12.5	12.4	17.0	17.9	17.7	17.8	17.7	17.5
Venezuela	10.81	14.21	15.17	15.50	15.50	15.50	5.99	10.58	19.80	31.28	49.43	78.10	7.96	14.58	27.15	44.05	69.62	109.91

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

Figure 14. Short Rates (End of Period), as of 21 May 2014 (Percent)

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

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

Figure 15. 10-Year Yield Forecasts (Period Average), as of 21 May 2014 (Percent)

	Current	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15
United States	2.51	2.95	3.20	3.40	3.45	3.50	3.55
Japan	0.59	0.65	0.70	0.85	0.95	0.95	0.85
Euro Area (Germany)	1.39	1.60	1.60	1.70	1.70	1.80	1.80
Canada	2.28	2.65	2.95	3.20	3.30	3.35	3.45
Australia	3.66	4.15	4.40	4.65	4.75	4.85	4.95
New Zealand	4.26	4.70	4.90	5.00	5.10	5.30	5.50
Denmark	1.71	1.67	1.70	1.80	1.80	1.95	1.95
Norway	2.69	2.80	2.70	2.60	2.65	2.75	2.80
Sweden	1.83	2.15	2.20	2.30	2.40	2.50	2.45
Switzerland	0.77	0.95	0.95	1.02	1.02	1.10	1.10
United Kingdom	2.61	3.00	3.30	3.50	3.55	3.65	3.70

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

Figure 16. 10-Year Yield Spreads (Period Average), as of 21 May 2014

	Spread vs. US$						Spread vs. Germany					
	Current	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	Current	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15
United States	NA	NA	NA	NA	NA	NA	114	137	163	173	178	173
Japan	-194	-232	-253	-258	-253	-258	-80	-95	-90	-85	-75	-85
Euro Area	-114	-137	-163	-173	-178	-173	NA	NA	NA	NA	NA	NA
Canada	-23	-30	-25	-20	-15	-15	90	107	137	153	163	158
Australia	117	122	122	128	133	138	230	259	285	300	311	311
New Zealand	178	178	173	163	169	184	292	316	336	336	347	357
France	-67	-87	-123	-133	-138	-133	45	50	40	40	40	40
Italy	78	3	-43	-53	-58	-53	190	140	120	120	120	120
Spain	61	13	-43	-53	-58	-53	173	150	120	120	120	120
Netherlands	-83	-112	-138	-148	-153	-148	29	25	25	25	25	25
Belgium	-53	-77	-113	-123	-128	-123	59	60	50	50	50	50
Austria	-90	-112	-148	-158	-163	-158	22	25	15	15	15	15
Finland	-85	-107	-138	-148	-153	-148	27	30	25	25	25	25
Ireland	29	-17	-83	-93	-98	-93	141	120	80	80	80	80
Portugal	147	53	-13	-23	-28	-23	259	190	150	150	150	150
Denmark	-80	-127	-153	-163	-163	-158	32	7	10	10	10	15
Norway	18	-27	-73	-78	-83	-73	130	120	110	90	95	95
Sweden	-68	-77	-103	-103	-108	-108	44	55	60	60	70	70
Switzerland	-174	-202	-228	-241	-246	-243	-62	-65	-65	-68	-68	-70
United Kingdom	10	5	10	10	10	15	122	142	173	183	188	188

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

Figure 17. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as 21 May 2014

Country	Current Rate (%)	Jun 14	Sep 14	Dec 14	Mar 15	Jun 15	Total Cumulative Rate Moves Expected
Brazil	11.00	0	0	0	100	50	150
Colombia	3.50	50	25	0	25	0	100
Philippines	3.50	0	25	25	25	25	100
South Africa	5.50	0	50	0	0	25	75
Hungary	2.50	-20	-5	0	25	75	75
Turkey	10.00	0	100	50	-50	-50	50
Korea	2.50	0	0	0	25	25	50
Mexico	3.50	0	0	0	0	25	25
Indonesia	5.75	0	0	25	0	0	25
Poland	2.50	0	0	0	0	25	25
Israel	0.75	-25	0	75	-25	0	25
India	8.00	0	0	0	0	0	0
Thailand	2.00	0	0	0	0	0	0
China	3.00	0	0	0	0	0	0
Chile	4.00	-25	-25	0	0	25	-25
Russia	7.50	0	-50	0	-50	-50	-150

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

Figure 18. Foreign Exchange Forecasts (End of Period), as of 21 May 2014

	vs. USD							vs. EUR						
	Current	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15	Current	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15
United States	NA	NA	NA	NA	NA	NA	NA	1.37	1.38	1.36	1.35	1.36	1.38	1.39
Japan	102	102	104	106	107	108	109	139	141	141	143	146	149	152
Euro Area	1.37	1.38	1.36	1.35	1.36	1.38	1.39	NA	NA	NA	NA	NA	NA	NA
Canada	1.09	1.10	1.11	1.12	1.13	1.13	1.14	1.49	1.52	1.51	1.52	1.54	1.56	1.59
Australia	0.93	0.94	0.95	0.95	0.95	0.95	0.94	1.47	1.46	1.43	1.42	1.44	1.46	1.47
New Zealand	0.86	0.87	0.86	0.86	0.86	0.86	0.85	1.59	1.59	1.57	1.57	1.59	1.61	1.63
Norway	5.95	5.84	5.91	5.90	5.80	5.70	5.60	8.16	8.06	8.02	7.97	7.91	7.85	7.79
Sweden	6.57	6.61	6.76	6.79	6.70	6.61	6.52	9.01	9.11	9.17	9.18	9.14	9.10	9.06
Switzerland	0.89	0.90	0.92	0.93	0.92	0.92	0.92	1.22	1.24	1.25	1.25	1.26	1.27	1.28
United Kingdom	1.68	1.72	1.71	1.71	1.71	1.72	1.73	0.82	0.80	0.79	0.79	0.80	0.80	0.80
China	6.23	6.20	6.12	6.07	6.06	6.04	6.02	8.6	8.6	8.3	8.2	8.3	8.3	8.4
India	58.9	60.3	61.4	62.1	62.3	62.5	62.7	80.8	83.1	83.3	83.9	85.0	86.1	87.2
Korea	1024	1034	1038	1034	1022	1010	998	1405	1426	1409	1398	1395	1392	1388
Poland	3.06	3.08	3.15	3.16	3.09	3.01	2.94	4.19	4.24	4.28	4.27	4.21	4.15	4.09
Russia	34.8	36.6	37.6	38.0	37.8	37.6	37.4	47.7	50.5	51.0	51.3	51.6	51.8	52.0
South Africa	10.39	10.65	10.95	11.07	11.01	10.95	10.89	14.25	14.68	14.85	14.96	15.03	15.09	15.14
Turkey	2.10	2.13	2.18	2.22	2.26	2.30	2.34	2.88	2.94	2.95	3.00	3.08	3.17	3.25
Brazil	2.22	2.36	2.45	2.51	2.54	2.57	2.60	3.04	3.25	3.33	3.40	3.47	3.55	3.62
Mexico	13.0	12.9	13.0	13.1	13.0	12.9	12.8	17.8	17.8	17.7	17.7	17.7	17.8	17.8

Source: Citi Research

Figure 19. Foreign Exchange Forecasts (End of Period), as of 21 May 2014

	vs. JPY						
	Current	Sep 14	Dec 14	Mar 15	Jun 15	Sep 15	Dec 15
United States	102	102	104	106	107	108	109
Japan	NA	NA	NA	NA	NA	NA	NA
Euro Area	139	141	141	143	146	149	152
Canada	93	93	93	94	95	95	96
Australia	95	96	99	100	101	102	103
New Zealand	87.6	88.4	89.7	90.7	91.5	92.3	93.1
Norway	17.1	17.5	17.6	17.9	18.4	18.9	19.5
Sweden	15.5	15.5	15.4	15.5	15.9	16.3	16.8
Switzerland	114	114	113	114	115	117	119
United Kingdom	171	176	178	180	183	186	189
China	16	16	17	17	18	18	18
India	1.72	1.69	1.69	1.70	1.71	1.73	1.74
Korea	10.08	10.12	9.98	9.80	9.58	9.36	9.14
Poland	33.2	33.2	33.0	33.4	34.6	35.8	37.1
Russia	2.9	2.8	2.8	2.8	2.8	2.9	2.9
South Africa	9.8	9.6	9.5	9.5	9.7	9.9	10.0
Turkey	48.4	47.9	47.8	47.6	47.3	47.0	46.7
Brazil	45.8	43.3	42.4	42.0	42.0	41.9	41.9
Mexico	7.8	7.9	8.0	8.1	8.2	8.4	8.5

Source: Citi Research

Country Commentary

United States

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The winter weakness took a bigger bite out of first quarter growth than we had thought. But now the economy is rebounding sharply, setting up for solid growth in the next two quarters. We expect the bounce back in growth, especially in private domestic demand, will continue to drive down the unemployment rate to 6% late this year. The economy has key supports from ample slack and a strong financial tailwind.

The Fed continues to shift policy accommodation away from quantitative easing and toward anchoring forward rates. The Fed has been cutting asset purchases by $10 billion per meeting, setting the bar extremely high for changing that pace of taper. Chair Yellen has indicated a desire to guide policy by feedback rules that are conditional on economic developments.

The Fed appears to have begun the process of revising its principles for exiting zero policy rates, and we expect a new plan in the next few meetings. We continue to expect preparations for rate hikes in the spring of 2015, with modest tightening beginning in the summer. We see two-way risks here: Continued low inflation could delay tightening, while a faster recovery and wage gains could speed up exit.

The Fed has emphasised that the commitment to the current low policy rate is contingent on inflation, which has been well below the Fed's medium-term goal of 2%. Tradable goods prices actually have declined in the past year, reflecting the global slowdown. Inflation is likely to edge up over time, underpinned by domestic demand growth, tightening labour markets and an eventual pickup in global growth.

Figure 20. United States — Economic Forecasts, 2013-2015F

					2014				2015			
		2013	2014F	2015F	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
GDP	SAAR				-0.4%	3.5%	3.5%	3.1%	3.2%	2.8%	3.2%	3.1%
	YoY	1.9%	2.3%	3.1%	2.2	2.4	2.3	2.4	3.3	3.1	3.1	3.1
Domestic Demand	SAAR				1.4	3.6	3.2	3.0	3.0	2.9	3.0	3.0
	YoY	1.6	2.3	3.1	1.8	2.2	2.5	2.8	3.2	3.0	3.0	3.0
Consumption	SAAR				3.1	3.6	3.5	3.0	3.0	3.0	3.1	3.0
	YoY	2.0	3.0	3.1	2.5	3.0	3.4	3.3	3.3	3.1	3.0	3.0
Business Investment	SAAR				-3.2	6.7	5.6	5.5	4.9	4.2	4.4	4.5
	YoY	2.7	3.4	5.0	2.9	3.4	3.6	3.6	5.7	5.1	4.8	4.5
Housing Investment	SAAR				-4.3	7.8	8.4	8.5	9.0	9.0	9.5	9.5
	YoY	12.2	2.4	8.9	2.7	1.2	0.8	5.0	8.4	8.7	9.0	9.2
Government	SAAR				-0.8	0.6	-0.4	0.0	0.1	0.1	0.0	0.0
	YoY	-2.2	-1.1	0.0	-1.5	-1.3	-1.5	-0.2	0.1	-0.1	0.0	0.1
Exports	SAAR				-6.4	8.8	5.7	4.7	4.9	5.0	5.5	5.6
	YoY	2.7	3.6	5.3	3.5	3.7	4.2	3.0	6.0	5.1	5.0	5.3
Imports	SAAR				0.3	4.5	3.6	4.6	5.2	5.3	5.1	4.6
	YoY	1.4	2.7	4.8	2.7	2.2	2.5	3.2	4.5	4.7	5.1	5.1
PCE Deflator	YoY	1.1	1.5	1.8	1.1	1.6	1.6	1.8	1.9	1.8	1.8	1.8
Core PCE Deflator	YoY	1.2	1.5	1.8	1.1	1.5	1.6	1.7	1.9	1.9	1.8	1.8
Unemployment Rate	%	7.4	6.3	5.8	6.7	6.3	6.2	6.0	5.9	5.8	5.8	5.6
Federal Gov't Balance (Fiscal Year)	$Bn	-680	-475	-450								
	% of GDP	-4.1	-2.7	-2.5								
General Gov't Balance (Cal Year)	% of GDP	-7.3	-6.4	-5.6								
Federal Debt	% of GDP	72	73	73								
General Gov't Debt	% of GDP	105	106	106								
Current Account	US$bn	-379	-344	-280	-350	-354	-343	-330	-307	-288	-271	-254
	% of GDP	-2.3	-2.0	-1.5	-2.0	-2.0	-1.9	-1.9	-1.7	-1.6	-1.5	-1.4
S&P 500 Profits (US$ Per Share)	YoY	6.4	6.7	7.0	3.8	7.4	6.7	8.7	7.8	6.2	6.0	8.0

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

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Japan

Real GDP grew a solid 5.9% QoQ annualised in the first quarter. Frontloaded demand ahead of the consumption tax hike pushed up household spending strongly, but private capex also rose decently, probably reflecting the sharp rebound in corporate profits. We expect Q2 GDP will shrink by around 5% annualised amid payback to frontloaded demand, but a moderate uptrend in the economy will likely resume in the third quarter. The negative impact from the erosion in real purchasing power of household nominal income — driven by the tax hike — may persist longer. Hence, from the cyclical perspective, trends in exports will be a key factor in the economy's prospects in coming quarters.

The Abe Administration plans to publish the updated Growth Strategy in June. We are under the impression that the Administration is currently focusing excessively on the corporate tax reform. Given that the biggest reason why Japan's manufacturers are shifting production base to overseas is a lack of growth expectation for domestic markets, a modest reduction in the corporate tax rate alone is unlikely to change the corporate behaviour meaningfully, in our view. Other policy measures including bolder deregulation and labour market reforms would be needed to restore growth expectations for domestic markets.

We pushed back our expected timing for additional monetary easing from this summer to autumn or even later, in the wake of the release of the BoJ's semiannual economic report. While we continue to believe that actual inflation will undershoot the BoJ's optimistic forecasts during the rest of this fiscal year and that this will eventually push the BoJ to act again, the bar for additional easing appears much higher than we previously expected. At the same time, we stress that the BoJ is probably intentionally using bullish rhetoric to lift expectations among investors, consumers and companies, in the hope that this helps achieve the 2% inflation target.

Figure 21. Japan — Economic Forecasts, 2013-2015F

					2014				2015			
		2013	2014F	2015F	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	1.6%	1.4%	0.9%	2.7%	0.5%	1.0%	1.2%	0.0%	1.5%	1.6%	0.7%
	SAAR				5.9	-5.2	3.0	1.3	1.0	0.7	3.2	-2.1
Domestic Demand	YoY	1.8	1.6	0.5	3.8	1.0	0.9	0.5	-1.0	1.3	1.6	0.3
	SAAR				7.0	-7.7	2.4	1.0	0.8	1.0	3.6	-4.1
Private Consumption	YoY	2.0	0.5	0.4	3.4	-0.7	-0.3	-0.4	-2.2	1.4	2.1	0.2
	SAAR				8.5	-12.5	2.5	1.1	0.9	1.1	5.4	-6.2
Business Investment	YoY	-1.4	6.8	3.9	8.2	6.0	6.5	6.5	2.4	4.8	4.7	3.9
	SAAR				21.0	-4.1	4.7	5.9	3.3	5.1	4.5	2.8
Housing Investment	YoY	8.8	2.1	-0.9	11.9	4.7	-2.3	-5.1	-6.3	1.4	4.1	-2.3
Public Investment	YoY	11.5	3.2	-8.7	12.3	7.0	1.0	-6.0	-6.5	-9.5	-10.5	-8.4
Exports	YoY	1.6	8.6	4.0	8.9	6.9	9.0	9.5	4.2	4.0	4.0	4.0
	SAAR				26.3	4.3	5.3	3.7	3.6	3.5	5.3	3.7
Imports	YoY	3.4	8.6	1.9	14.9	9.3	7.0	3.6	-1.8	2.9	4.6	2.1
	SAAR				27.7	-12.1	1.2	1.4	3.0	5.9	8.3	-8.2
CPI	YoY	0.4	2.8	1.7	1.5	3.6	3.2	3.0	2.9	0.8	0.8	2.1
Core CPI	YoY	0.4	2.7	1.7	1.3	3.3	3.2	3.1	2.9	0.8	0.8	2.1
Nominal GDP	YoY	0.9	2.3	1.5	1.2	0.2	0.6	0.5	0.0	0.6	0.4	0.4
Current Account	¥ tn	3.3	-1.2	-1.1	-5.2	-0.1	0.3	0.0	-0.3	-1.3	-2.6	-0.2
	% of GDP	0.7	-0.2	-0.2	-1.1	0.0	0.1	0.0	-0.1	-0.3	-0.5	0.0
Unemployment Rate	%	4.0	3.6	3.5	3.6	3.7	3.7	3.6	3.5	3.5	3.4	3.4
Industrial Production	YoY	-0.6	4.1	1.2	8.1	3.9	2.9	1.4	-1.0	2.1	2.9	0.8
Corporate Profits (Fiscal Year)	YoY	37.5	10.0	12.5								
General Govt. Balance (Fiscal Year)	% of GDP	-9.8	-8.0	-6.2								
General Govt Debt	% of GDP	241	243	247								

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

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Euro Area

Euro area 1Q 14 GDP growth slowed to 0.2% QQ from 0.3% QQ in 4Q-13, but the annual rate rose to 0.9% YY from 0.5% YY in 4Q 13. Available GDP splits in some member states point to the exceptionally mild winter having curtailed consumption and production of energy (in France and the Netherlands), while German GDP was boosted by higher construction activity. As a result, we are trimming our 2014 euro area GDP forecast by 0.1pp to 1.2%. The ECB's new reaction function and the fact that President Draghi indicated during the May press conference that the Governing Council would be "*comfortable with acting next month*" suggest that it is ready to react to the low inflation outlook and lack of stimulus from financial conditions. President Draghi stressed on a number of occasions that the GC is "*not resigned to having too low inflation for a long period of time*", indicating there was a consensus about being "*dissatisfied with the projected path of inflation*".

The recent weakness in inflation, together with the further reduction in inflation expectations for 2014-2018 in the latest Survey of Professional Forecasters (SPF), increases the likelihood that the ECB will announce a negative deposit rate on June 5, as part of a decision to lower all key interest rates alongside new liquidity measures, including a probable extension of the full allocation fixed rate MRO window until 2016. Downside risks to GDP growth and the persistence of a weak private sector credit picture will likely prompt the ECB to launch a new conditional fixed-rate LTRO programme to target SMEs in 3Q 14, in our view.

The May statement also reaffirmed that the ECB is unanimous in its commitment to "*using also unconventional instruments within its mandate*", leaving the door open to QE at a later stage. Meeting its objective of delivering price stability over the medium term will likely require the ECB to launch an unsterilised large-scale asset purchase programme (LSAP) by year-end, after the AQR and EBA stress tests. Will it work? As our base case, we estimate that €1tn QE could improve the Citi Financial Conditions Index (FCI) by 0.4-0.5 SD and boost real GDP by 0.7% in total over the next three years, while inflation could be raised by 0.1-0.2% per year. But we stress the uncertainties over these channels.

Figure 22. Euro Area — Economic Forecasts, 2013-2015F

					2014				2015			
		2013	2014F	2015F	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	-0.4%	1.2%	1.8%	0.9%	1.0%	1.3%	1.4%	1.7%	1.7%	1.8%	1.9%
	SAAR				0.8	1.9	1.5	1.6	1.7	1.9	1.9	2.0
Final Domestic Demand	YoY	-0.9	0.9	1.6	0.6	0.9	1.0	1.1	1.5	1.5	1.6	1.7
Private Consumption	YoY	-0.7	0.7	1.5	0.3	0.6	0.9	1.1	1.5	1.5	1.5	1.6
Government Consumption	YoY	0.1	0.3	0.5	0.2	0.3	0.1	0.5	0.4	0.5	0.6	0.6
Fixed Investment	YoY	-2.9	2.1	2.9	1.8	2.3	2.3	1.9	2.7	2.8	3.1	3.2
Business Equipment	YoY	-1.8	2.6	4.0	2.5	2.6	3.0	2.4	3.9	4.1	4.1	4.0
Construction	YoY	-4.0	1.3	2.5	0.9	1.5	1.3	1.7	2.0	2.4	2.7	2.8
Stocks (Contrib. to Y/Y GDP Growth)		-0.1	0.2	0.2	0.0	0.2	0.0	0.5	0.2	0.2	0.1	0.1
Exports	YoY	1.4	2.9	3.3	4.2	2.4	2.8	2.1	2.8	3.1	3.5	3.6
Imports	YoY	0.0	2.9	3.4	3.8	2.7	2.4	2.7	3.1	3.4	3.7	3.6
CPI	YoY	1.4	0.6	0.9	0.7	0.6	0.4	0.7	0.8	0.9	0.9	0.8
CPI Ex Unprocessed Food & Energy	YoY	1.3	0.9	0.8	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.7
Unemployment Rate	YoY	12.0	11.6	11.1	11.8	11.7	11.5	11.4	11.3	11.2	11.0	10.8
Current Account Balance	EUR bn	230.2	278.7	288.7								
	% of GDP	2.4	2.9	2.9								
General Government Balance	EUR bn	-290.3	-249.5	-202.8								
	% of GDP	-3.0	-2.6	-2.0								
Primary Balance	% of GDP	-0.1	0.4	1.0								
General Government Debt	EUR bn	9,121.3	9,468.3	9,651.2								
	% of GDP	95.2	97.1	96.7								
Gross Operating Surplus	YoY	1.5	2.1	3.2								

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

Germany

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The flash release for Q1 GDP came exactly in line with our forecasts at 0.8% QQ, boosted by exceptionally mild weather. As these temporary boosts fade, growth in Q2 was always going to slow, but there has also been a slightly soft tone to recent sentiment and activity data, leaving our Q2 forecast slightly weaker at 0.4% QQ (from 0.5% QQ). Nevertheless, German growth momentum remains strong and we expect above-potential growth of 2.2% in 2014, 2.4% in 2015 and 2.5% in 2016.

France

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Economic activity ground to a halt in the first quarter. INSEE's GDP splits showed a 0.3% QQ contraction in final domestic demand, highlighting the difficulties that a deeply unpopular President Hollande will likely continue to face to narrow the budget deficit to its 3% of GDP target in 2015. Part of the weakness in GDP was related to temporary factors such as the January 2014 VAT rate hike, and lower energy production due to the mild weather. But labour market statistics also paint a weak picture, as non-farm private sector employment fell 0.1% QQ in Q1 14, unwinding the previous quarter's increase. We trim our 2014 GDP forecast slightly, by 0.2pp to 0.8%, reinforcing our call that France will likely underperform its peers noticeably over the 2014-15 amid heavy fiscal consolidation.

Italy

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Following a weaker-than-expected Q1 print (-0.1% QQ) we revise down our 2014 average growth by 0.3pp, but marginally lift our 2015 forecast (+0.1pp), as we still expect a modest growth rebound in Q2 and anticipate that the income tax cuts and repayments of government debt arrears will lift domestic demand in H2 14. Political uncertainty may increase in the near term if ruling parties suffer a defeat at the expense of the populist M5S in the upcoming EU elections — still a possible scenario, even if not one suggested by recent opinion polls. The cyclical recovery remains weak, likely keeping inflation low – and, indeed, inflation may possibly decline further in coming months.

Figure 23. Germany, France and Italy — Economic Forecasts, 2013-15F

		Germany			France			Italy		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	0.5%	2.2%	2.4%	0.4%	0.8%	1.4%	-1.8%	0.3%	1.2%
Final Domestic Demand	YoY	0.7	2.2	2.7	0.5	0.3	1.0	-2.6	0.1	1.1
Private Consumption	YoY	1.0	1.7	2.5	0.3	0.2	0.9	-2.6	-0.1	0.9
Government Consumption	YoY	0.7	1.2	1.5	2.0	1.0	0.8	-0.8	-0.5	-0.5
Fixed Investment	YoY	-0.6	5.0	4.3	-0.8	-0.4	1.7	-4.6	1.4	4.0
Exports	YoY	1.0	3.3	3.2	2.4	2.8	2.4	0.0	2.3	3.4
Imports	YoY	1.0	3.8	4.8	1.9	2.7	1.5	-2.9	0.2	3.0
CPI	YoY	1.5	1.3	1.8	1.0	0.8	1.2	1.3	0.3	-0.2
Unemployment Rate	%	5.3	5.0	4.7	9.9	9.8	9.5	12.2	12.7	12.3
Current Account	€bn	201.7	199.0	194.8	-28.3	-11.8	1.4	15.8	25.8	23.8
	% of GDP	7.4	7.1	6.8	-1.4	-0.6	0.1	1.0	1.6	1.5
General Govt. Balance	€bn	0.3	3.6	8.7	-88.2	-86.1	-74.6	-44.1	-46.8	-43.3
	% of GDP	0.0	0.1	0.3	-4.3	-4.1	-3.5	-2.8	-3.0	-2.7
Primary Balance	% of GDP	2.2	2.4	2.4	-2.0	-1.8	-1.2	2.2	1.9	2.0
General Govt. Debt	% of GDP	78.4	77.1	74.0	93.5	96.6	97.8	132.6	137.8	138.6
Gross Trading Profits	YoY	2.1	5.4	5.3	0.6	1.8	3.1			

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

Spain

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We keep our forecasts unchanged this month and continue to expect GDP to accelerate in coming years. Q1 real GDP data confirmed that the recovery is broadening from exports to domestic demand, with business investment supported by solid corporate balance sheets and rising confidence. This is allowing an earlier-than-expected pick up in the jobs market and recovery in private consumption. We expect export growth to remain solid, while inflation is likely to gradually pick up from close to zero this year — but to remain subdued in coming years.

Greece

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Q1 GDP contracted by 1.1% YY (probably falling by 0.4% QQ), in line with our expectations, supporting our view that 2014 average growth will stay negative. We expect QQ GDP growth to pick up in Q2/Q3, reflecting a positive tourism season and increases in public spending, together with early signs of job creation. But export growth remains weak, reducing the scope for improvement in corporate liquidity and hence in investment. Political risk is likely to intensify around the local and EU elections (on 25 May) as a defeat for the ruling coalition may heighten government instability and increase risks of early elections.

Ireland

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The available evidence points to very strong Q1 GDP growth, of about 1% QoQ or perhaps even more (after a 2.3% QoQ drop in Q4). Industrial production rebounded 4.6% QoQ in Q1, the highest QoQ gain since 2010, with IP in March 10.6% up from the Dec-13 level. Moreover, retail sales surged 2.6% QoQ, and the PMI points to continued rapid output growth. As a result, we are edging up our 2014 growth forecast to 2.1% from 1.8% last month. Unless the authorities choose to heavily pre-finance future issuance, the public debt/GDP ratio is likely to fall this year.

Portugal

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We scale down (by 0.3pp) our 2014 GDP forecast on a weak Q1 print, which is unlikely to be offset by the rebound in economic activity still seen for the coming quarters. The labour market is improving earlier than we expected, and this should support consumption, also helped by a historically-high saving rate. Exports are likely to remain buoyant, supporting investment activity. A clean exit from the bailout programme was finally announced, as we had expected.

Figure 24. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2013-15F

		Spain			Greece			Ireland			Portugal		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-1.2%	1.0%	1.6%	-3.9%	-0.8%	1.2%	-0.3%	2.1%	3.3%	-1.3%	1.2%	2.0%
Final Domestic Demand	YoY	-2.7	0.8	1.5	-6.4	-0.5	0.5	-0.2	2.8	1.5	-2.4	0.9	1.4
Private Consumption	YoY	-2.0	1.6	1.8	-5.8	-0.5	0.5	-1.1	2.0	2.1	-1.6	0.9	1.4
Government Consumption	YoY	-2.3	-0.9	0.1	-4.0	0.6	-0.6	-0.6	-2.8	-2.5	-1.7	-0.6	0.8
Fixed Investment	YoY	-5.0	0.1	2.2	-12.8	-1.5	2.4	4.9	13.7	3.9	-6.2	3.1	2.2
Exports	YoY	4.9	5.5	5.4	1.3	0.7	3.0	0.1	5.2	3.8	6.2	3.3	4.2
Imports	YoY	0.4	4.9	5.4	-5.3	-1.3	0.5	1.0	7.5	2.1	2.9	3.3	2.8
CPI	YoY	1.5	0.0	0.2	-0.9	-1.6	-1.7	0.4	0.8	1.0	0.4	-0.4	-0.6
Unemployment Rate	%	26.1	24.9	23.7	27.3	26.4	25.6	13.1	11.4	10.6	16.2	14.7	13.4
Current Account	€bn	8.0	9.9	9.6	1.4	2.6	3.1	10.9	14.6	15.3	0.9	2.6	1.9
	% of GDP	0.8	1.0	0.9	0.8	1.5	1.8	6.6	8.6	8.7	0.5	1.5	1.1
General Govt. Balance	€bn	-72.4	-59.6	-50.2	-23.1	-4.4	-4.9	-11.8	-9.0	-5.0	-8.2	-6.7	-4.8
	% of GDP	-7.1	-5.8	-4.8	-12.7	-2.5	-2.8	-7.2	-5.4	-2.8	-5.0	-4.0	-2.8
Primary Balance	% of GDP	-3.7	-2.3	-1.4	-8.7	1.9	1.8	-2.8	-0.4	2.2	-0.6	0.4	1.8
General Govt. Debt	% of GDP	93.9	99.2	102.2	175.1	182.3	185.2	124.0	121.5	120.6	128.9	135.7	132.9

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

Netherlands

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The Dutch economy contracted by 1.4% QQ in Q1 14, after a 0.9% QQ gain in Q4 13. The GDP split shows a large drop in household expenditure (-1.3% QQ) and some payback in private gross fixed capital formation (-4.9% QQ), contributing to a 1% QQ drop in final domestic demand following a 1.3% QQ uptick in Q413. Although the statistics office noted that the mild winter had reduced sales of natural gas, business confidence continued to improve in 1Q-14. We expect the recovery to be confirmed in Q2, despite our 2014 GDP forecast falling by 0.7pp to 0.6%.

Belgium

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GDP rose by 0.4% QQ in Q1 14, lifting the YY rate to a ten-quarter high of 1.2%. Business and household surveys weakened a bit in April, hinting that recovery may lose momentum in 2Q as the country prepares for important legislative, regional and European Parliamentary elections. The Flemish separatists' strong showing in terms of voting intentions is probably impacting confidence, highlighting the risks of a protracted period of negotiations between the main parties to form a government.

Slovakia

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We are lifting our 2014 GDP growth forecast to 2.1% from 2.0%, reflecting the Q1 GDP data and better employment, and look for growth to rise to 2.6% YoY in 2015 (though down from our 2.8% forecast last month) and 3.1% in 2016. Fiscal policy represents a downside risk, but this could be offset by expected ECB easing. We believe the April surveys support our less optimistic outlook compared to forecasts of the MinFin, NBS, EC, and IMF (2.3%-2.4% YoY) for 2014. The Ukraine crisis and large errors in the BoP represent downside risks to our outlook. The privatisation of a major telco company will be watched to avoid the 57% debt brake trigger.

Slovenia

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We keep our GDP forecast unchanged as the better outlook on foreign demand is offset by local political uncertainty. March data showed a solid gain in industrial production (4.2% YY) after weaker Jan-Feb data, and an ongoing stronger recovery in construction. However, domestic demand remains weak, reflecting only a mild improvement at the labour market. There are two uncertainties over the election: first, the timing (unlikely in June, likely in second half of July and possibly in August) and second the outcome: the opposition right-wing party leads in voters' preferences, but its leader is likely to be an obstacle for potential coalition parties.

Figure 25. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2013-15F

		Netherlands			Belgium			Slovakia			Slovenia		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-0.8%	0.6%	1.4%	0.2%	1.3%	1.5%	0.9%	2.1%	2.6%	-0.9%	0.4%	1.4%
Final Domestic Demand	YoY	-2.0	1.2	0.9	0.3	1.0	1.2	-0.8	1.6	2.0	-2.2	-0.2	1.2
Private Consumption	YoY	-2.1	-0.3	0.8	0.8	1.0	0.9	-0.1	1.0	1.8	-2.9	-1.4	-0.4
Government Consumption	YoY	-0.2	0.2	0.0	0.6	0.3	0.8	1.4	1.5	0.8	-2.0	-1.2	0.4
Investment (Ex Stocks)	YoY	-4.8	6.4	2.7	-1.4	2.1	2.4	-4.3	3.1	3.3	-0.2	2.4	1.0
Exports	YoY	1.4	1.5	2.4	1.9	3.1	3.6	4.5	6.2	8.6	2.7	4.5	5.5
Imports	YoY	-0.2	1.2	2.0	1.4	2.7	3.8	2.9	6.4	7.8	1.3	4.2	5.4
CPI (Average)	YoY	2.6	0.7	1.3	1.2	0.6	1.1	1.4	0.2	1.2	1.8	0.7	1.1
Unemployment Rate	%	8.3	8.7	8.6	8.4	8.4	8.2	14.1	13.0	12.4	10.1	10.1	10.1
Current Account	% of GDP	10.4	10.5	10.2	-1.6	1.0	1.7	2.4	2.8	3.4	6.3	3.0	2.7
General Govt Balance	% of GDP	-2.4	-2.8	-2.2	-2.7	-2.4	-2.0	-2.8	-3.0	-2.5	-14.7	-4.0	-3.5
Primary Balance	% of GDP	-0.7	-1.1	-0.5	0.6	0.8	1.2	-1.5	-1.7	-1.3	-12.1	-1.1	-0.7
General Govt Debt	% of GDP	73.5	74.9	74.6	101.2	102.2	101.6	55.4	56.3	55.6	71.7	76.3	77.8

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

United Kingdom

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Consensus growth forecasts are still rising, but remain too low in our view. We are leaving our UK growth forecasts at 3.5% for 2014 and 3.6% for 2015 (versus the consensus of 2.8% and 2.4% respectively), although there is a chance of revisions either way to our forecast once details of Q1 GDP are released in late-May. Q1 GDP rose 0.8% QoQ and 3.1% YoY, the highest YoY gain since 2007, and business surveys remain buoyant. The upturn is fuelled by the mix of ultra-low interest rates plus QE, with diminished headwinds from private deleveraging and balance sheet repair, with less fiscal drag in the UK and reduced EMU strains externally. The recovery has already broadened from the initial emphasis on consumer spending and a falling savings rate to now also include investment and exports. The QoQ gain in employment in Q1 was the highest for over 40 years, and labour market slack is shrinking rapidly. We expect that real personal disposable incomes will rise by about 2.5% this year, the highest gain since 2006. Corporate balance sheets are in good shape, with corporate liquidity (the ratio of companies' sterling bank deposits to sterling bank debts) at the highest for over 40 years. This implies considerable scope for a rebound in employment, capex and dividends as firms become less risk-averse, and surveys suggest that such a rebound is underway.

CPI inflation was 1.8% YoY in April and is likely to stay a little below target in Q2 and Q3. However, with the strong upturn in growth and rising capacity use, we suspect that the inflation undershoot ultimately will be quite short-lived unless there is a major external disinflationary shock, and look for inflation to be back to target next year. We continue to expect the first hike to come in Q4 this year — prompted by strong economic growth and shrinking labour market slack — with the first stage of the tightening cycle taking rates up to 2.5% in late 2015. Such a path would still leave rates relatively low in real terms, and would slow — but not throttle — the recovery in 2016-18.

Figure 26. United Kingdom — Economic Forecasts, 2013-2015F

					2014				2015			
		2013	2014F	2015F	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	1.7%	3.5%	3.6%	3.1%	3.4%	3.6%	4.0%	4.1%	3.8%	3.5%	3.1%
	SAAR				3.5	4.3	3.9	4.2	4.0	3.1	2.8	2.4
Domestic Demand	YoY	1.8	3.0	3.9	3.3	3.3	2.1	3.4	3.7	4.0	4.1	3.7
(Incl. Inventories)	SAAR				3.6	3.0	3.0	4.2	4.7	3.9	3.4	2.7
Private Consumption	YoY	2.2	2.9	3.4	2.1	3.0	3.0	3.5	3.5	3.5	3.4	3.2
	SAAR				3.1	3.9	3.4	3.5	3.3	3.7	3.2	2.6
Government Consumption	YoY	0.7	0.9	0.0	2.0	0.8	0.4	0.4	0.5	0.2	-0.2	-0.5
	SAAR				-0.4	0.9	0.9	0.4	-0.1	-0.5	-0.5	-1.0
Investment	YoY	-0.6	9.8	11.8	10.5	8.3	9.6	10.8	11.8	12.7	11.9	10.8
	SAAR				9.7	8.2	12.9	12.5	13.5	11.8	9.8	8.3
Exports	YoY	1.0	3.3	5.6	2.6	1.4	5.3	4.0	6.1	5.9	5.4	5.3
	SAAR				-2.5	5.2	7.4	6.1	5.6	4.4	5.6	5.4
Imports	YoY	0.5	1.5	6.9	2.4	0.6	0.3	2.5	5.5	6.9	7.7	7.6
	SAAR				-3.7	1.9	5.0	6.9	8.4	7.6	7.7	6.9
Unemployment Rate	%	7.6	6.5	5.1	6.8	6.7	6.4	6.1	5.7	5.3	4.9	4.5
CPI Inflation	YoY	2.6	1.7	2.0	1.7	1.7	1.6	1.7	1.8	1.9	2.0	2.1
Merch. Trade	£bn	-108.6	-95.7	-95.5								
	% of GDP	-6.7	-5.6	-5.3								
Current Account	£bn	-71.1	-61.3	-66.8								
	% of GDP	-4.4	-3.6	-3.7								
PSNB	£bn FY	-106.8	-87.6	-59.9								
	% of GDP	-6.6	-5.0	-3.3								
General Govt. Balance	% of GDP	-7.1	-5.6	-3.8								
Government Primary Balance		-3.5	-2.0	0.0								
Public Debt	% of GDP	94.4	96.9	96.2								
Gross Nonoil Trading Profits	YoY	2.6	8.6	5.5								

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

Switzerland

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The Swiss economy continues to grow quite strongly with price stability. Q1 export volumes (goods only) grew 2.4% QoQ, the biggest gain since Q1-2011, while import volumes fell 1.4% QoQ. We look for Q1 GDP growth (published in late May) of about 1% QoQ, consistent with the trend in business surveys. As a result, we do not expect the SNB will follow the further easing that we expect from the ECB, although the SNB will likely continue to resist FX appreciation to prevent deflation risks returning.

Sweden

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Although we expect a setback for GDP in 1Q (following a 1.7% Y/Y jump in 4Q), we continue to expect a solid pick-up in growth this year. Recovery, however, continues to face sizeable headwinds given Sweden's relatively high EM export exposure and modest recoveries in key euro area export markets. At the same time, fiscal policy will have to be tightened over time for the government to meet its fiscal target by 2018, as pledged. With very low inflation and expectations of ongoing undershoots vs. Riksbank forecasts in the months (and years) ahead, we expect the Central Bank to cut the repo rate by 25bp to 0.50% at the next meeting in July, and see an outside chance of additional monetary easing later this year.

Denmark

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We expect the GDP contraction in 4Q-13 to prove temporary, and continue to expect a modest recovery, driven by rising domestic demand and exports. With economic growth set to outpace potential in 2014-15, unemployment should begin to edge lower and the sizeable output gap to slowly start closing. The DNB exited the period of negative interest rates in April (lifting the CD-rate to 0.05%). Combined with large-scale intervention and expected ECB easing, we reckon this will prove sufficient to curb current DKK weakness. Strong foreign demand for Danish assets plus the swelling current account surplus might lead to FX appreciation pressures.

Norway

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Mainland GDP growth (ex. oil/gas and shipping) has recovered gradually since mid-13 and momentum has broadly stabilised this year. We have revised our forecast up by 0.1pp to 2.0% Y/Y this year and expect the economy to gain further pace to 2.2% in 2015 (2.1% before). We expect firmer private consumption and non-oil exports will be the main growth drivers, while slowing oil investment trends and ongoing erosion in competitiveness imply that mainland GDP will grow at a below trend rate pace in coming years. Both fiscal and monetary policy (initial tightening not seen until mid-2015 at the earliest) should remain expansive to support economic recovery.

Figure 27. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2013-2015F

		Switzerland			Sweden			Denmark			Norway		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.0%	2.2%	2.3%	1.5%	2.6%	2.7%	0.4%	1.0%	1.5%	2.0%	2.0%	2.2%
Final Domestic Demand	YoY	2.3	2.8	2.7	1.3	2.1	2.4	0.4	1.1	1.5	2.5	1.8	2.2
Private Consumption	YoY	2.3	2.2	1.9	2.0	2.3	2.7	0.0	1.1	1.7	2.2	2.1	2.5
Government Consumption	YoY	3.0	1.6	0.7	1.9	1.2	0.8	0.8	0.7	0.7	1.8	2.2	2.3
Investment (Ex Stocks)	YoY	1.8	5.0	6.2	-1.2	3.0	3.6	0.7	1.6	2.3	4.5	0.1	1.1
Exports	YoY	2.0	6.3	6.1	-0.9	2.7	4.6	1.2	2.7	3.1	0.8	1.2	2.8
Imports	YoY	1.6	7.2	7.8	-1.0	2.6	4.1	1.7	1.9	3.4	2.9	1.2	2.9
CPI (Average)	YoY	-0.2	-0.2	0.9	0.0	0.1	1.2	0.8	1.5	1.7	2.1	2.0	2.1
Unemployment Rate	%	3.1	2.7	2.1	8.0	7.9	7.5	7.0	6.9	6.7	3.5	3.7	3.9
Current Account	% of GDP	12.0	12.2	11.7	6.2	5.9	5.6	7.4	6.8	5.8	10.6	11.1	11.4
General Govt Balance	% of GDP	0.2	0.7	1.1	-1.3	-1.6	-0.8	-1.2	-1.3	-2.4	11.4	11.9	11.0
General Govt Debt	% of GDP	48.2	46.2	44.8	39.1	39.7	39.0	45.8	46.0	47.0	NA	NA	NA

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

Canada

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The economy is shaking off 1Q weakness caused by the severe US/Canada winter, softer EM activity and resurgence of geopolitical risks. So we continue to anticipate faster growth for the remainder of this year and beyond. The expansion should be supported by greater US demand momentum, the cheaper CAD, and stronger oil exports amid North American energy infrastructure build-out. The internal demand rotation likely will remain a headwind, but Canadian businesses are increasing their engagement in the expansion and a broader array of export sectors are firming. Elevated commodity prices and easy financial conditions support the outlook.

Consumer inflation remains below the BoC’s 2% target, but is firming as dampening pressures ease. Total CPI inflation should stabilise around the target towards the end of this year. The timing for overall CPI to return to 2% is more accelerated relative to projections a few months ago, due to one-off boosts from the winter spike in energy prices and the CAD depreciation. But it does not change our expectations for the next rate hike as core CPI probably will continue to be weighed down until slack is absorbed and prices level out after an intense period of retail competition.

Risks to the inflation outlook remain roughly balanced, in our view. Upside risks include (1) outperformance of the US economy; and (2) reinvigoration of the housing market that reinforces existing imbalances. Downside risks include (1) uncertainties related to China’s growth and credit concerns, EA geopolitical risks, and US unconventional monetary policy unwind; (2) weaker-than-forecast global demand that hinders Canadian exports growth; and (3) domestic consumer retrenchment linked to household debt and/or a housing market hard landing. The BoC appears unlikely to judge downside risks as less, or even no longer, important until there is further improvement in exports growth, faster inflation and reduction of household imbalances. Hence, we continue to expect the next rate hike in 3Q 2015.

Figure 28. Canada — Economic Forecast, 2013-2015F

					2014F				2015F			
		2013	2014F	2015F	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	2.0%	2.4%	2.7%	2.4%	2.5%	2.4%	2.3%	2.6%	2.7%	2.7%	2.7%
	SAAR				1.7	2.5	2.6	2.4	2.8	2.8	2.8	2.6
Final Domestic Demand	YoY	1.4	1.6	2.1	1.5	1.5	1.7	1.8	2.1	2.1	2.1	2.2
	SAAR				1.3	1.9	2.3	1.9	2.3	2.2	2.2	2.1
Private Consumption	YoY	2.2	2.5	2.5	2.6	2.4	2.6	2.3	2.5	2.5	2.4	2.5
	SAAR				1.8	2.5	2.9	2.1	2.5	2.5	2.5	2.5
Government Spending	YoY	0.4	-0.6	0.3	-0.5	-0.6	-0.6	-0.5	0.0	0.2	0.4	0.5
	SAAR				-1.5	-0.5	-0.2	0.1	0.5	0.5	0.5	0.5
Private Fixed Investment	YoY	0.4	1.8	3.4	0.7	1.4	2.0	3.3	3.5	3.4	3.4	3.3
	SAAR				3.2	3.4	3.3	3.4	3.8	3.2	3.2	3.1
Exports	YoY	2.1	0.9	4.9	0.1	0.0	1.2	2.0	4.7	4.9	5.0	5.0
	SAAR				-5.6	4.5	4.8	4.7	4.9	5.1	5.5	4.5
Imports	YoY	1.1	-0.2	3.2	-1.0	-0.9	0.2	0.7	3.0	3.2	3.3	3.4
	SAAR				-5.8	2.5	3.3	3.0	3.3	3.3	3.5	3.3
CPI	YoY	0.9	1.8	2.0	1.4	1.9	1.9	2.0	1.8	1.9	2.0	2.1
Core CPI	YoY	1.2	1.5	1.9	1.3	1.5	1.7	1.7	1.8	1.8	2.0	2.1
Unemployment Rate	%	7.1	6.9	6.6	7.0	6.9	6.9	6.8	6.9	6.6	6.5	6.4
Current Account Balance	C$bn	-60.6	-46.5	-41.6	-53.4	-47.0	-43.9	-42.0	-42.1	-42.4	-41.1	-40.8
	% of GDP	-3.2	-2.4	-2.0	-2.8	-2.4	-2.2	-2.1	-2.1	-2.1	-2.0	-2.0
Net Exports (Pct. Contrib.)		0.3	0.3	0.4	0.2	0.5	0.4	0.4	0.4	0.5	0.6	0.3
Inventories (Pct. Contrib.)		0.3	0.4	0.1	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Budget Balance (Fiscal Year)	% of GDP	-0.9	-0.1	0.3								
Federal Budget Debt	% of GDP	32.5	31.3	29.5								
General Govt. Debt	% of GDP	96.6	95.4	93.2								

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

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Australia

The Federal Budget delayed the introduction of large spending cuts and tax increases until at least the middle of 2015. This was a sensible decision given the Budget's starting point of an economy growing at a below trend rate. Nevertheless, the hostile reception to a number of large budget proposals from the opposition and minor parties in the Senate suggests they are unlikely to pass into law, at least in their current form. A return to some federal fiscal policy uncertainty looks likely at least for the remainder of this year. This presents some downside risk to our business investment and employment forecasts. With inflation subdued, evidence of ongoing excess slack in the labour market and the exchange rate still above a level that would be justified based on fundamentals, this argues for a longer period of stability in monetary policy. We have pushed back the timing of the first RBA rate increase from Q1 2015 to Q2 and reduced the amount by which policy will be tightened over the forecast horizon. Our end of 2015 cash rate forecast is now 3.25% compared to 4.00% previously. This still leaves monetary policy on the accommodative side of neutral.

New Zealand

The combination of OCR increases and high LVR mortgage borrowing restrictions appear to have further decelerated activity in the housing market. House price growth has slowed and the volume of housing turnover has moderated. With the labour market showing more moderate wage growth and a slightly higher unemployment rate than expected, the RBNZ can afford to slow the pace of rate increases. We still expect Governor Wheeler to pause at every second OCR meeting in the remainder of this year but the risk is that there is only one 25 bp hike rather than our established forecast of two 25 bp hikes. Next year we now expect the pace of OCR increases to slow even further, leaving the policy rate at 4.25% by the end of 2015 rather than 4.75%. The risk to our OCR view comes from the election to be held on September 20. Should the major parties promise to lift spending the fiscal stance will be less restrictive at a time of strong domestic demand growth.

Figure 29. Australia and New Zealand — Economic Forecast, 2013-2015F

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

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

China

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April data show no sign of economic recovery. Growth in fixed asset investment, industrial production and retail sales was all weaker than market expectations. Power consumption growth slowed from 7.2% YoY in March to 4.6% YoY in April, and railway cargo growth remained in the red at -3.2% YoY. Investment has been the key drag on growth this year due to tighter credit in the real economy. On the fiscal side, value added tax growth dropped from 10.5% YoY in March to 4.9% YoY in April. In particular, revenues from property-related business taxes and income tax registered negative growth. Nationwide property prices will likely correct this year and the risk of a property price bubble bust is rising — starting in lower tier cities. The long-awaited regulation on inter-bank businesses will probably further restrain off-balance sheet activities and increase the market-based cost of capital. Growth for the rest of the year will largely depend on better export growth or further policy accommodation.

President Xi Jinping called for China to adapt to the “new normal”. This hints that Chinese policy-makers may tolerate somewhat slower growth as long as the labour market is not badly hit. According to our estimates, the actual GDP growth in 1Q could be as low as 6% YoY if the under-stated GDP deflator is corrected. Over the past month, the State Council published a follow-up document on supporting trade. The PBOC cut RRR for selected rural banks, and urged commercial banks to extend more mortgage loans at lower rates to reduce the risk of a sharp slowdown in the property sector. Some local governments relaxed home purchase restrictions to support real housing demand. We expect the PBOC to maintain adequate liquidity to lower borrowing costs, and government to take more measures (including removal of house purchase restraints) to prevent a property market crash.

The widening of the USDCNY trading band and thus increased volatility of RMB has started to dampen speculation on the currency. The RMB has depreciated against the dollar by about 3% year-to-date. The FX position data suggest a small-scale non-FDI capital outflow in April, the first monthly outflow since last October. Going forward, headline export growth may improve substantially from May, leading to a higher trade surplus. This would result in mounting political pressures from not only the US but also G20 on currency issues. We expect RMB appreciation to resume ahead of the China-US strategy and Economic Dialogue in early July.

Figure 30. China — Economic Forecasts, 2013-2015F

					2014F				2015F			
		2013	2014F	2015F	1QF	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	7.7%	7.3%	7.0%	7.4%	7.0%	7.1%	7.4%	7.4%	7.2%	6.8%	6.7%
Real Final Domestic Demand	YoY	8.3	7.2	7.1								
Consumption	YoY	7.8	7.1	7.6								
Fixed Capital Formation	YoY	8.9	7.3	6.6								
Industrial Production	YoY	9.7	8.7	8.5	8.7	8.4	8.6	9.2	9.2	8.8	8.0	7.8
Exports	YoY	7.8	5.4	6.7	-3.4	7.0	8.0	9.0	8.0	7.0	6.0	6.0
Imports	YoY	7.3	4.5	7.3	1.7	6.0	5.0	5.0	6.0	7.0	8.0	8.0
Merchandise Trade Balance	$bn	259	291	298	17	76	81	118	27	81	75	115
FX Reserves	$bn	3,821	4,084	4,292	3,950	3,981	4,015	4,084	4,082	4,137	4,188	4,292
Current Account	% of GDP	2.0	2.0	1.5								
Fiscal Balance	% of GDP	-1.9	-2.1	-2.0								
General Govt. Debt*	% of GDP	53.7	54.0	53.4								
Urban Unemployment Rate	%	4.1	4.2	4.3	4.2	4.2	4.2	4.3	4.3	4.3	4.3	4.3
CPI	YoY	2.6	2.6	3.2	2.3	2.6	2.6	2.8	3.1	3.0	3.0	3.5
Exchange Rate (end period)	CNY/$	6.05	6.12	6.02	6.22	6.29	6.20	6.12	6.07	6.06	6.04	6.02
1-Yr Deposit Rate (end period)	%	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00

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

India

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The much-awaited 2014 elections (see India Macro View: Big Win...Big Possibilities) resulted in the BJP beating and gaining an "absolute majority" (272+ seats of the 543 total) in the 2014 general elections. This is the largest majority for a single party in 30 years, implying a stable Government and significant legislative firepower. It is still going to be tough, but Mr. Modi, the BJP, and the market could not have asked for more: the government now needs to deliver.

Expectations are high and markets have gained in anticipation. Investors' perception of India has changed from 'hated' to 'loved' - a result of political change, micro-level policy reforms and a watchful central bank. But the change in government is significant and we believe it can deliver given its (1) Economic emphasis (2) Stability in composition and (3) Decisive governing structure

Real economy challenges remain. We expect the recovery will be investment-led but gradual. While we maintain our above consensus FY15 GDP estimate of 5.6%, we expect upgrades only in FY16/FY17. The pick-up in growth will be a function of (1) Pace of policy de-bottlenecking, (2) Investment appetite of the corporate sector and (3) Extent of the government's own role in capital formation. We are optimistic, but believe the path will be more gradual than sharp.

We believe the change in government is likely to be (1) Growth supportive: led primarily by investment (we raise our FY16 GDP forecast to 6.5%). (2) Currency supportive: driven by capital flows, but given BJP's focus on exports and domestic manufacturing we expect the currency to trade closer to its equilibrium value (INR in 59-62 band) (3) Inflation and Rates: lower, but with a lag (4) Fiscal: Better quality fiscal deficit (albeit not necessarily lower).

It is a nice story, but there are risks: (1) Event risk in terms of El-Niňo (2) Global risk environment including geo-politics (3) Still-high inflation and tight monetary/fiscal policy (4) Political factors – such as ministerial appointments, minority status in Upper House etc. While these risks will always be there, the political outcome mitigates risks on sovereign ratings and currency vulnerability.

Figure 31. India — Economic Forecasts, FY2013/14-2015/16F

		FY 13/14F	FY 14/15F	FY 15/16F
Real GDP	YoY	4.9%	5.6%	6.5%
Final Domestic Demand	YoY	3.0	4.6	6.7
Private Consumption	YoY	4.1	5.5	7.0
Fixed Investment	YoY	0.2	2.5	6.5
Exports	YoY	8.0	11.0	9.3
Imports	YoY	-1.6	9.5	9.0
Wholesale Price Index	YoY	5.9	5.5	5.0
Consumer Price Index	YoY	9.5	8.0	6.5
Current Account	US$ bn	-37	-47	-58
	% of GDP	-2.0	-2.3	-2.5
Consolidated Fiscal Balance	% of GDP	-6.9	-6.7	-6.5
Centre Fiscal Balance	% of GDP	-4.6	-4.1	-4.0
US Dollar Exchange Rate	Average	61.8	61.4	62.7

Sources: Haver Analytics and Citi Research forecasts

Korea

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CPI inflation in April inched up to 1.5%YoY from 1.3% YoY in March, as inflation rates for industrial goods and services rose further. However, as expected, reduced transactions in the housing market (after the government's plan to implement taxes on lease income) slowed housing prices in April. In particular, apartment prices in the Seoul Metropolitan area have fallen during the last four weeks. Economic sentiment seemed to have worsened after the ferry sinking incident on April 16th and concerns have escalated over its negative impact on consumption spending on leisure, plus accommodation and food services. The unexpected rise of the jobless rate to 3.7% s.a. in April vs. 3.5% in March, in our view, partly reflected the impact of the ferry incident on the services sector and domestic-oriented manufacturing. Among the measures to support economic recovery and the businesses affected by the incident, the government planned to advance its spending by KRW7.8trn (US$7.6bn) in 1H14 which could boost 2Q14 GDP growth by 0.2%p. Meanwhile, the BoK will seek to ensure the early utilisation of the unused portion (KRW2.9trn) of its Bank Intermediate Lending Support Facility instead of cutting the policy rate. We expect no policy rate change in this year.

Indonesia

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Given there are only 2 pairs (ie President and Vice-President) instead of 3 pairs of candidates, the presidential elections will likely be finished on 9-July and will not need to go to a second round in September. This quick wrap-up may allow reforms to be expedited, in our view. The new government will be inaugurated on 20 October regardless of whether the elections finish in one or two rounds. Therefore a quick finish in July could mean that the new administration will have more time to prepare the cabinet and hit the ground running on 20 October. A one-round election scenario therefore may raise the possibility of a fuel price hike happening in 2H14, in our view. We move forward our baseline scenario for a fuel price hike to 4Q14, instead of previously 1Q15. We assume a +30% fuel price hike, which will bring the yearend inflation rate to 7.3%, vs. our previous forecast of 5.3%. The inflation impact may be lower versus last year's price hike as the weights of fuel and transport tariffs in the current CPI are lower than in last year's CPI. Fuel price hikes would be positive for the fiscal position medium term. However we are cautious in the short term, as the revised 2014 budget deficit could be on the high end of the 2-2.5% GDP range. According to the MoF, the incremental rise in debt issuance could reach Rp65tn versus our initial expectation of Rp30-40tn.

Figure 32. Korea and Indonesia — Economic Forecasts, 2013-2015F

		Korea			Indonesia		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	3.0%	3.9%	4.0%	5.8%	5.3%	5.5%
Final Domestic Demand	YoY	2.8	3.1	3.7	5.1	4.6	5.7
Private Consumption	YoY	2.0	2.7	3.3	5.3	5.1	4.4
Fixed Investment	YoY	4.2	4.4	4.8	4.7	4.5	10.3
Exports	YoY	4.3	5.9	6.9	5.3	1.1	5.7
Imports	YoY	1.6	6.3	6.7	1.2	-1.4	3.1
Consumer Price Index	YoY	1.3	2.1	3.1	6.4	6.5	6.7
Unemployment Rate	%	3.1	3.3	3.1	5.8	6.5	6.3
Current Account	US$ bn	79.9	56.5	46.7	-28.5	-20.9	-19.3
	% of GDP	6.1	3.9	2.9	-3.3	-2.4	-2.1
Fiscal Balance	% of GDP	1.0	0.9	1.5	-2.2	-2.3	-1.7
US Dollar Exchange Rate	Average	1095	1042	1016	10449	11617	11981

Sources: Haver Analytics and Citi Research forecasts

Hong Kong

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Real GDP growth in Q1 disappointed and only grew 2.5% YoY on smaller trade contributions. We think economic momentum in 2Q could still see some headwinds, but is likely to turn better in 2H-14. HK equity market sentiment continues to be dampened by headline news of China and US Fed's dovish/hawkish bias, despite the expected launch of the Shanghai-HK Stock Connect program in Q4. Recent minor adjustments to double stamp duty for home upgraders are not a change of policymaker's stance to the property market, and we think overall demand controls will remain in place to allow supply to catch up. Inflation pressures are likely to abate because of slower passthrough from private rentals. EFN yields are likely to trend up with US rates. Political noise will probably escalate further as the Government has indicated that the civil nomination mechanism for the 2017 Chief Executive will likely be excluded from future political consultation.

Singapore

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The economy remains stuck in a choppy expansion path. Labour constraints and the strong SGD have caused manufacturing exports to underperform regional peers even as a pickup in re-exports suggests that tradable services are benefitting from improving regional trade. Domestic demand remains constrained by consumer deleveraging and tighter credit. The revival in April primary home sales in response to developer price discounts renders any relaxation of property policies less likely for now — the impending spike in completions until 2016 rules out any sustained rebound even if property policies are relaxed in 2015. Notwithstanding headline disinflation from lower car prices and housing rents, with the labour market still tight, MAS sees a risk that core inflation exceeds the 2-2.5% implicit tolerance threshold.

Taiwan

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1Q real GDP met expectations at 3% YoY, with gains in both external and domestic demand, while the April exports data point to solid growth in Q2. We believe that as more new tech products are launched and demand picks up from advanced economies, a managed slowdown in China should not derail Taiwan's export recovery for the rest of the year. Taiwanese businesses in Vietnam suffered severe damage in recent anti-China protests. While tallying the cost of damage, Taiwan will have to rethink its FDI strategies. However, there are limited options of nearby countries that can offer such low production costs, hard & soft infrastructure and market access. Subdued trends in food prices and wages are likely to keep YoY CPI in low single digits, but longer run the results of the coming public referendum on Taiwan's 4th nuclear power plant could hike energy prices notably by 2018.

Figure 33. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2013-2015F

		Hong Kong			Singapore			Taiwan		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.9%	3.2%	3.6%	3.9%	3.5%	4.0%	2.1%	3.2%	3.8%
Final Domestic Demand	YoY	3.8	2.2	2.4	1.8	0.4	0.4	2.2	1.8	2.4
Private Consumption	YoY	4.2	2.1	2.4	2.6	1.6	-0.8	1.8	1.8	2.7
Fixed Investment	YoY	3.3	2.7	2.8	-1.9	1.2	2.9	5.3	2.4	3.4
Exports	YoY	6.5	4.1	6.3	3.6	4.4	4.0	3.8	4.6	6.2
Imports	YoY	6.9	3.9	5.7	3.1	3.8	2.4	4.0	3.7	5.2
CPI	YoY	4.3	3.9	3.7	2.4	1.8	1.3	0.8	1.2	2.0
Unemployment Rate	%	3.4	3.1	3.1	1.9	1.8	1.8	4.2	4.0	3.9
Current Account	US$ bn	5.6	8.1	9.6	54.6	61.8	66.8	57.4	55.1	54.7
	% of GDP	2.1	2.8	3.2	18.3	18.0	18.0	11.7	11.0	10.2
Fiscal Balance	% of GDP	1.0	1.3	0.7	1.1	-0.3	0.2	-1.4	-1.4	-0.8
US Dollar Exchange Rate	Average	7.76	7.76	7.76	1.25	1.26	1.26	29.68	30.40	30.04

Sources: Haver Analytics and Citi Research forecasts

Russia

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Lingering tensions in Ukraine make for a very challenging backdrop for the Russian economy, creating substantial downside risks to economic performance. The combination of more subdued investment and consumption spending related to heightened uncertainty, and tighter monetary policy, already led us to downgrade our 2014 GDP forecast from 2.6% to 1.0% (1.3% in 2013), but there are downside risks even to this forecast. Preliminary estimates for 1Q growth are at 0.9% YoY. Investment spending will be the key channel through which market volatility will affect growth performance and we have already seen investment contracting by almost 5.0% YoY in 1Q. On the other hand, consumer spending was resilient in 1Q as currency devaluation and rising inflation have caused households to bring spending forward. However, we expect this temporary factor to fade away over the course of the year and for consumer spending to also feel the pain. More broadly, while consumption has been the only bright spot in Russian macro over the last couple of years, it has been slowing recently, as fears the consumer boom might turn into a bubble have led to more restrictive regulatory behaviour. The CBR was right, in our view, to hike rates by 200bp to 7.50% to limit contagion, but this will also come at the cost of stronger headwinds to growth, including the recent S&P downgrade. More generally, Russia faces a tight fiscal-monetary policy mix, which creates an unfavourable background to the economy.

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The improved global risk appetite, the sharp compression in CDS spreads, the recovery of the lira and the Governor's remarks at the introduction of the new *Inflation Report* have all supported rate cut expectations. Specifically, while the Governor underlined that the central bank will maintain a tight policy stance until there is a noticeable improvement in the inflation outlook, the Bank could carry out moderate cuts in a gradual fashion in light of the marked decline in Turkey's risk premium. However, with core measures standing at around 11.4%-13.0% (SA, 3-month moving average annualised), price developments do not seem to justify the CBT's intention to ease. Where do we go from here? We acknowledge that the likelihood of a premature easing has increased and that one cannot rule out moderate easing (up to 50bp) in the next 3 months. However, we believe the CBT does not have much room to ease without hurting the performance of the lira. More importantly, we cannot rule out the possibility of the CBT getting carried away and easing more aggressively than expected. This risk, if it materialises, would eventually hurt the lira and undermine sentiment in the fixed income market — something which we have seen before under the CBT's unorthodox framework.

Figure 34. Russia and Turkey — Economic Forecast, 2013-2015F

		Russia			Turkey		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.3%	1.0%	2.3%	4.0%	2.2%	3.5%
Final Domestic Demand	YoY	2.4	1.9	2.7	4.7	-1.8	3.4
Private Consumption	YoY	4.3	3.2	3.1	4.6	0.0	3.2
Fixed Investment	YoY	-0.3	0.0	3.5	4.3	-9.0	4.0
Exports	YoY	1.5	2.0	2.1	0.1	8.6	4.4
Imports	YoY	5.5	4.5	5.0	8.5	-7.2	4.0
CPI	YoY	6.8	6.8	5.8	7.5	8.6	7.9
Unemployment Rate	%	5.5	5.7	5.8	9.8	9.5	9.5
Current Account	US$ bn	32.8	54.9	39.2	-65.1	-42.0	-45.2
	% of GDP	1.5	2.7	1.9	-7.9	-5.2	-5.3
Fiscal Balance	% of GDP	-2.1	-4.4	-4.9	-1.2	-2.8	-3.2
US Dollar Exchange Rate	Average	31.9	36.3	37.7	1.91	2.13	2.28

Sources: Haver Analytics and Citi Research forecasts

Hungary

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Growth indicators continue to surprise to the upside and so far there are no signs of Russian geopolitical strains impacting the Hungarian economy. With the 1Q14 GDP data (3.5% YoY) beating our expectations and signs that the consumption recovery is gaining momentum, we are lifting our 2014 GDP growth forecast to 2.5% YoY (from 2.3% last month) and have further upgraded our 2015 GDP forecast to 1.9% (from 1.7%). The April CPI surprised to the downside on broad-based factors which, in line with the euro area price trends, point towards softer inflation. Therefore we are lowering our CPI forecasts to 0.5% YoY in 2014 and 2.6% in 2015 (down by 0.2 percent and 0.3 percent respectively from last month) and expect CPI inflation to stay below the NBH's 3% target throughout 2015. With soft inflation and expected ECB easing, we are cutting our year-end base rate forecast to 2.25%, as we expect the NBH to carry on minor cuts during the summer with the first hike postponed until 1Q15. The announced changes in NBH policy instruments may provide support to the local bond market in coming months but we expect term premiums to rise from 4Q14 in line with rising inflation and the global rate environment.

Poland

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The most recent leading indicators signal some negative impact of conflict between Russia and Ukraine on the Polish economy, although this is yet not confirmed in hard economic data. In April, the manufacturing PMI index fell unexpectedly for the second month in a row (to 52 pts) — in contrast to the euro area index – and to a large extent this was explained by weakness in new export orders and tensions in the east. The recently-released foreign trade data for March confirmed a significant weakening in export growth to both Russia and Ukraine, but this was more than offset by stronger exports to the EU and other developed countries. Therefore, we maintain our forecast that GDP growth will accelerate to 3.4% YoY this year on stronger domestic demand, driven by a recovery in the labour market, loan growth and investment — but still with some downside risk due to Russia-Ukraine strains. After the substantial and unexpected drop in inflation to 0.3% in April, we expect it to stay below 1.5% YoY until the yearend. We now also expect the MPC will extend forward guidance in June/July, signaling that rates will stay flat until year-end and that it will raise rates only in 2Q15, which is still earlier than discounted by the market. Expectations of delayed rate hikes, expected monetary easing by ECB and low bond supply in 2H will likely support bonds and delay upward pressure on yields in the coming months. Stronger growth and the low current account deficit will also limit depreciation pressure on the zloty.

Figure 35. Hungary and Poland — Economic Forecasts, 2013-2015F

		Hungary			Poland		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.1%	2.5%	1.9%	1.6%	3.4%	3.6%
Final Domestic Demand	YoY	1.6	2.0	1.2	0.9	3.0	3.6
Private Consumption	YoY	0.2	1.8	1.9	0.8	2.7	3.2
Fixed Investment	YoY	5.9	3.1	0.0	-0.2	4.7	6.0
Exports	YoY	5.3	5.9	6.0	4.6	5.9	6.5
Imports	YoY	5.3	5.7	5.9	1.2	6.7	7.5
CPI	YoY	1.7	0.5	2.6	0.9	0.8	2.5
Unemployment Rate	%	9.1	8.6	8.5	13.4	12.4	11.7
Current Account	US$ bn	3.9	3.5	3.1	-6.6	-13.9	-21.8
	% of GDP	2.9	2.6	2.2	-1.3	-2.5	-3.7
Fiscal Balance	% of GDP	-2.2	-2.9	-2.9	-4.3	5.2	-2.7
Euro Exchange Rate	Average	297	311	319	4.20	4.22	4.18

Sources: Haver Analytics and Citi Research forecasts

Czech Republic

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For the time being, we maintain our 2014 growth forecast at 1.9% YoY, followed by 2.6% and 3.0% in 2015 and 2016 respectively. The flash estimate for Q1 GDP did not provide many clues to the outlook, due to revisions, but it appears that recovery remains on track. Although Czech 1Q 2014 GDP remained unchanged in QoQ terms, this translated into a pickup in YoY growth to 2% from 1.2% previously published in 4Q13 (which we estimate was revised to around 0.6%). We think these distortions reflect a change in the tax base owing to large forward buying of tobacco in 4Q13 to avoid the recent tax hike. However, we believe that valued added has continued to grow, both in QoQ and YoY terms, supported by industry and services, with CZSO saying that both consumption and fixed investment accelerated in YoY terms. Overall, the 1Q14 YoY data is in line with confidence data. We estimate fixed investment was weaker than the CNB's expectations and this could explain the undershooting of its forecast (2.7%YoY). If so, this split could partly neutralise the disinflationary implications from weaker GDP growth as CNB has tended to see weakness in fixed investment as potentially inflationary because of adverse effects on productivity trends. We continue to expect a later exit from the current CNB's FX intervention mode (mid 2015) and first hikes in CNB's rate (end of 2015) compared to CNB's expectation of "in early 2015, eventually later", but we assume a slightly weaker koruna on a 9M horizon.

Romania

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There are some signs that domestic demand is on track to play a more significant role in shaping economic growth. In particular, the recent data — including the retail trade turnover — offer hope that private consumption is gaining traction, as the investment recovery, which is expected to become more visible next year, continues to lag behind. Against this backdrop, we look for a pick-up in non-agricultural growth and expect this year's GDP growth to be around 3%. Turning to inflation, despite the NBR's recent revision of its year-end forecast to 3.3% YoY (from 3.5%), sticky service and non-food inflation as well as the possibility of a reversal in food prices lead us to remain more cautious. As a result, we see year-end inflation at about 3.8% YoY. Regarding monetary policy, although money market rates still remain below the policy rate, we are encouraged to see that NBR has started to move money market rates closer to the policy rate of 3.5%. This development, if sustained, would bode well for the leu, in our view.

Figure 36. Czech Republic and Romania — Economic Forecasts, 2013-2015F

		Czech Republic			Romania		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	-0.9%	1.9%	2.6%	3.5%	3.0%	3.4%
Final Domestic Demand	YoY	-0.5	1.1	2.6	0.0	1.8	3.3
Private Consumption	YoY	0.1	0.4	1.8	1.3	1.5	3.5
Fixed Investment	YoY	-3.5	2.7	5.2	-3.4	3.2	3.5
Exports	YoY	0.2	6.5	8.0	13.1	5.5	4.5
Imports	YoY	0.6	5.7	7.7	2.3	3.0	4.0
CPI	YoY	1.4	0.9	2.1	4.0	2.0	3.4
Unemployment Rate	%	7.0	7.0	6.8	5.3	5.5	5.5
Current Account	US$ bn	-2.9	0.3	1.6	-2.0	-5.1	-9.2
	% of GDP	-1.4	0.2	0.8	-1.1	-2.5	-4.2
Fiscal Balance	% of GDP	-1.5	-2.0	-2.5	-2.5	-2.3	-2.3
EURCZK, USDRON	Average	26.0	27.5	27.2	3.3	3.3	3.2

Sources: Haver Analytics and Citi Research forecasts

Brazil

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The second FIFA World Cup held by Brazil will start in June 12th. However, the sentiment is that the World Cup could be a liability for the federal government. Our base case scenario is that D. Rousseff will be reelected, winning in the second round in October 2014. However, if her approval rate continues to hover around 35% (or lower), then the chances for A. Neves (PSDB) or E. Campos (PSB) of winning the election will increase. The World Cup may well lift inflation, but it will likely be temporary as prices should return to their prior levels after the event ends. Thus, we keep our 2014 year-end CPI inflation forecast at 6.6% YoY. We also maintain our bearish view on activity growth, expecting GDP to expand 1.3% this year and 1.8% in 2015.The net effect of the World Cup is expected to be modest; thus we keep our 0.3% QoQ growth forecast for 2Q14 – the same as for 1Q14. Regarding monetary policy, we expect no more hikes to the Selic rate in 2014. We continue to see 150bps of additional increases for next year, with the Selic rate reaching 12.5%. Fiscal results continue to disappoint and we do not see any meaningful fiscal adjustment in 2015. We expect a fiscal primary surplus of 2.0% of GDP that year. Better global conditions are supporting capital flows and probably will keep the BRL around 2.25/USD in the near term. We now see the USDBRL at 2.45 and 2.60 by the end of 2014 and 2015, respectively (from USDBRL 2.47 and 2.61).

Mexico

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Recent data suggest slower activity growth than we anticipated for 1Q14 — even despite the shift in Easter celebrations. Moreover, the weak performance of domestic demand in 1Q14 has generated some inertia that will likely cause slower growth in 2Q. However, we continue to expect activity growth to recover in the second half of 2014, on the back of stronger external demand, public spending and residential construction. Thus, we have revised down our 2014 GDP growth forecast to 3.0%, down from 3.3% before. Our 2015 GDP growth forecast remains unchanged at 4.0%. Meanwhile, headline annual inflation continued to fall in April – to 3.5% YoY, from 3.8% in March and below our expectations. As we do not see inflationary pressure, we now expect annual inflation to stand at 3.8% by the end of 2014 (versus our previous forecast of 4.0%) — although we acknowledge a rebound is likely in coming months. On the political front, the electoral reform should be approved by Congress in an extraordinary session before the end of May. This would mean one less obstacle for Congress, considering the secondary legislation on the energy reform.

Figure 37. Brazil and Mexico — Economic Forecasts, 2013-2015F

		Brazil			Mexico		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	2.3%	1.3%	1.8%	1.1%	3.0%	4.0%
Final Domestic Demand	YoY	2.9	1.3	1.6	1.4	3.1	4.4
Private Consumption	YoY	2.3	1.7	1.9	2.5	2.9	4.0
Fixed Investment	YoY	6.3	-0.8	1.1	-1.8	4.2	7.0
Exports	YoY	2.5	2.5	6.8	1.4	6.5	5.5
Imports	YoY	8.4	2.3	4.4	1.2	6.6	7.6
CPI	YoY	6.2	6.4	6.3	3.8	4.0	3.6
Unemployment Rate	%	5.5	5.8	5.9	5.0	4.8	4.5
Current Account	US$ bn	-81.4	-83.2	-84.6	-22.3	-27.4	-25.8
	% of GDP	-3.7	-3.8	-3.8	-1.8	-2.1	-1.8
Fiscal Balance	% of GDP	-3.3	-3.9	-3.4	-2.4	-3.5	-2.5
US Dollar Exchange Rate	Average	2.16	2.34	2.56	12.76	12.96	12.94

Sources: Haver Analytics and Citi Research forecasts

Argentina

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The economy seems heading to a long period of weak activity. In contrast to past recessions (2008/2009 and 2012), this time the contraction in output is unlikely to be followed by a rapid recovery. Activity is shrinking despite supportive external (particularly terms of trade) and weather conditions, while the authorities' room to conduct expansionary fiscal and/or monetary policy is non-existent. Moreover, the government has not taken advantage of the recent calm in the FX market to undertake meaningful measures on the fiscal front. On the contrary, the (few) available data suggest that the fiscal accounts have continued to deteriorate. Consequently, tensions may reemerge in the second semester, when the pressure on the FX and fiscal fronts tends to increase. For instance, in the last three years, average foreign currency purchases from the Central Bank during the first semester stood at USD4.7bn, compared to sales for USD2.3bn in the second half of the year (i.e., an USD7bn difference). Additionally, in 2011-2013, only 8% of the peso transfers from the BCRA to the Treasury took place during the first semester, with the remaining 92% happening in the second half of the year.

Venezuela

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Most likely, economic activity contracted on the first quarter, with investment being the worst performer due to reduced execution of public projects. We expect inflation to accelerate in April, given the upward pressures associated with low availability of goods, and to surpass 60% in annual terms. On the FX front, we have seen trading volumes in the new SICAD II system stabilising around USD43-47 million per day, with most of the allocations coming in the form of bonds. Although one of the goals of SICAD II was to reduce the excess liquidity available in the economy, growth of monetary aggregates remains high. In addition, we have heard of discussions associated with increases in gasoline prices and regulated services such as electricity and water. If these actions materialise, they should (partially) help to improve the public accounts.

Figure 38. Argentina and Venezuela — Economic Forecasts, 2013-2015F

		Argentina			Venezuela		
		2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	3.0%	0.0%	1.0%	1.3%	-1.0%	1.9%
Final Domestic Demand	YoY	4.4	-0.2	1.2	-0.3	-1.1	0.7
Private Consumption	YoY	4.3	0.6	1.4	3.7	0.1	0.3
Fixed Investment	YoY	3.0	-4.2	-0.3	-3.5	-3.5	0.9
Exports	YoY	-5.3	-1.5	-1.5	-3.8	1.3	4.2
Imports	YoY	1.6	-2.0	0.0	-4.6	-0.7	-1.0
CPI	YoY	10.6	-	31.8	38.5	62.5	82.1
Unemployment Rate	%	7.1	7.7	8.1	5.6	5.2	4.8
Current Account	US$ bn	-4.3	-5.0	-5.3	12.2	14.9	18.2
	% of GDP	-0.7	-1.1	-1.2	3.3	4.1	5.1
Fiscal Balance	% of GDP	-1.9	-2.4	-2.4	-11.9	-11.2	-10.3
US Dollar Exchange Rate	Average	5.45	8.75	11.81	5.99	10.58	19.80

Sources: Haver Analytics and Citi Research forecasts

Saudi Arabia

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

United Arab Emirates

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We continue to harbour concerns regarding the pace of asset price inflation in Dubai. Cluttons data available on Bloomberg suggests there has been a levelling off in residential prices in 2014, but data from Jones Lang Lasalle's Q1 Dubai property market report suggests that prices continue their upward trajectory, albeit at a somewhat reduced pace. Either way, rates are up around a third on average across Dubai over the last year, with some areas seeing prices in excess of the 2008 peek. The number of announced projects and the sharp rise in land transactions over the past year and during the first quarter (value of transactions rose 57% YoY) suggest that the momentum remains driven by strong investor confidence. We maintain our view that Dubai's resilience to any potential property-led volatility is, at this point, much greater than it was in mid-2008, at the height of the previous property bubble. That said, Dubai's economy is dynamic and fast changing, and we remain cautious — should we see a sharp rise in construction and/or leverage related to the housing market, we believe Dubai's vulnerabilities will once again increase.

Figure 39. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2013-2015F

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

Sources: Haver Analytics and Citi Research forecasts

Nigeria

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The provisional outcome of the National Bureau of Statistics GDP rebasing exercise means Nigeria is now Africa's largest economy with an estimated GDP of US$586bn in 2013. But this does not change the myriad of challenges facing the government, such as the need to reduce high levels of poverty, boost electricity production or to re-build the excess crude account (ECA). But despite these challenges and rising political uncertainty towards the February 2015 elections, we still expect growth to remain robust at over 6% in 2014. While the finance minister, Ngozi Okonjo-Iweala, remains committed to maintaining fiscal discipline despite the approaching elections, the fiscal picture could deteriorate in 2H 2014 if supplementary budgets are passed or there is no recovery in oil production. Although pressure has eased on the naira recently, it could easily re-emerge as the elections approach — and how the CBN responds to this scenario would be crucial in understanding its overall commitment to naira stability going forward. But while we expect greater naira volatility on a day-to-day basis in 2014, we still expect only limited overall naira depreciation, unless there is a major change to the oil price-production equation or reserves really comes under pressure prior to the polls.

South Africa

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We continue to expect 2.3% GDP growth this year but note that the consensus is falling closer to our expectation. First quarter data confirms poor production figures owing to labour and electricity problems, while higher inflation and the expectation of rate hikes will quell consumer activity. Despite the one-off setbacks from labour and electricity, a rebalancing from consumption to production remains underway and the current account deficit should have narrowed to 4.6% of GDP by year-end. Though this diminishes some inflation risk, the lagged effect of ZAR depreciation and January maize price hikes threaten to push CPI to a peak of 6.8% in June, keeping the interest rate debate alive. Though we expect CPI to remain above-target until Q2 15, we have softened our inflation forecasts from Q4 14 (owing to the recent ZAR trends mostly) which may force a rethink to our interest rate view. The SARB may have the willingness to normalise rates, but we believe it will pause again in May. The data-dependent nature of rate decisions keeps the door open for future rate hikes, however, and we factor in further 25bp hikes in July and September as necessary to stabilise the currency and sustain the rebalancing of the economy. Thereafter, we expect the SARB to remain on hold until Fed hiking begins. This means a total 100bp rate cycle for 2014. All these factors leave us more constructive on the near-term ZAR outlook, especially now that the elections have passed. The new cabinet will be important for policy direction, but it may take some time for the implications to become clear.

Figure 40. Egypt, Nigeria and South Africa — Economic Forecast, 2013-2015F

		Egypt			Nigeria			South Africa		
		2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Real GDP	YoY	1.5%	2.4%	3.2%	6.6%	6.4%	6.4%	1.9%	2.3%	2.9%
Final Domestic Demand	YoY	2.5	3.0	3.5	NA	NA	NA	2.9	2.7	3.2
Private Consumption	YoY	3.7	2.0	2.6	NA	NA	NA	2.6	2.4	3.1
Fixed Investment	YoY	2.1	1.6	9.9	NA	NA	NA	4.7	3.8	4.1
Exports	YoY	-6.3	2.2	5.6	NA	NA	NA	4.2	6.6	5.5
Imports	YoY	-3.4	4.7	7.2	NA	NA	NA	4.7	4.0	6.8
CPI	YoY	9.5	9.1	7.1	8.5	8.8	10.6	5.8	6.5	5.8
Unemployment Rate	%	13.4	14.2	14.5	NA	NA	NA	24.7	25.0	24.6
Current Account	US$ bn	-3.3	-2.9	-5.5	22.4	15.8	10.7	-20.4	-17.1	-15.4
	% of GDP	-1.3	-1.1	-1.9	3.8	2.4	1.4	-5.8	-4.9	-4.2
Fiscal Balance	% of GDP	-9.3	-9.5	-8.4	-1.4	-1.7	-1.6	-4.3	-4.2	-4.2
US Dollar Exchange Rate	Average	6.87	7.12	7.54	159.2	164.25	168.83	9.65	10.61	10.98

Sources: Haver Analytics and Citi Research forecasts

Figure 41. Selected Emerging Market Countries — Economic Forecast Overview, 2013-2015F

	GDP Growth (%)			CPI Inflation (%)			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F	2013	2014F	2015F
Asia	6.3	6.2	6.3	3.7	3.5	3.8	2.2	2.1	1.5	-2.3	-2.4	-2.2
China	7.7	7.3	7.0	2.6	2.6	3.2	2.0	2.0	1.5	-1.9	-2.1	-2.0
Hong Kong	2.9	3.2	3.6	4.3	3.9	3.7	2.1	2.8	3.2	1.0	1.3	0.7
India	4.9	5.6	6.5	9.5	8.0	6.5	-2.0	-2.3	-2.5	-6.9	-6.7	-6.5
Indonesia	5.8	5.3	5.5	6.4	6.5	6.7	-3.3	-2.4	-2.1	-2.2	-2.3	-1.7
Korea	3.0	3.9	4.0	1.3	2.1	3.1	6.1	3.9	2.9	1.0	0.9	1.5
Malaysia	4.7	5.4	5.6	2.1	3.5	4.5	4.0	4.4	4.0	-3.9	-3.5	-3.0
Mongolia	11.7	10.0	9.0	10.5	13.1	12.0	-30.9	-17.9	-19.7	-7.8	-7.5	-4.3
Philippines	7.2	6.9	7.3	2.9	4.1	4.0	3.5	3.4	2.9	-1.4	-1.8	-1.6
Singapore	3.9	3.5	4.0	2.4	1.8	1.3	18.3	18.0	18.0	1.1	-0.3	0.2
Sri Lanka	7.3	7.2	7.4	6.9	5.7	6.5	-3.9	-3.3	-3.0	-5.9	-5.6	-5.3
Taiwan	2.1	3.2	3.8	0.8	1.2	2.0	11.7	11.0	10.2	-1.4	-1.4	-0.8
Thailand	2.9	0.5	2.8	2.2	2.4	2.1	-0.7	2.2	-1.1	-1.8	-1.2	-1.8
Vietnam	5.4	5.7	5.9	6.6	5.4	6.8	5.3	4.1	2.9	-5.3	-5.3	-4.5
Latin America	2.4	1.9	2.8	7.3	9.3	10.1	-2.5	-2.7	-2.6	-3.2	-3.6	-3.1
Argentina	3.0	0.0	1.0	10.6		31.8	-0.7	-1.1	-1.2	-1.9	-2.4	-2.4
Brazil	2.3	1.3	1.8	6.2	6.4	6.3	-3.7	-3.8	-3.8	-3.3	-3.9	-3.4
Chile	4.1	3.5	4.5	1.9	3.6	2.8	-3.3	-2.6	-4.0	-0.3	-0.4	-0.4
Colombia	4.3	4.6	5.0	2.0	2.8	3.3	-3.4	-3.7	-3.7	-1.4	-1.3	-0.7
Costa Rica	3.5	3.1	2.2	5.2	3.9	5.0	-5.1	-7.5	-7.9	-6.5	-7.2	-7.7
Dominican Republic	4.1	4.5	4.5	4.8	4.0	4.6	-4.4	-4.8	-5.0	-4.1	-4.0	-4.2
Ecuador	4.5	4.5	4.5	2.7	3.6	2.4	-1.3	-1.1	-1.2	-2.4	-1.9	-1.5
El Salvador	1.8	2.2	2.5	0.8	0.8	1.8	-6.1	-6.3	-5.7	-4.2	-4.1	-3.7
Mexico	1.1	3.0	4.0	3.8	4.0	3.6	-1.8	-2.1	-1.8	-2.4	-3.5	-2.5
Panama	8.4	6.2	5.5	4.0	2.7	2.8	-11.3	-9.0	-8.5	-3.0	-3.0	-3.0
Peru	5.0	5.4	6.2	2.8	3.2	2.5	-4.9	-5.1	-4.8	0.8	0.0	0.0
Venezuela	1.3	-1.0	1.9	38.5	62.5	82.1	3.3	4.1	5.1	-11.9	-11.2	-10.3
Europe	2.0	1.7	2.9	5.3	5.6	5.3	-1.3	-0.2	-0.8	-2.2	-2.4	-3.6
Bulgaria	0.9	1.5	2.5	0.9	-0.5	2.5	1.9	-0.2	-0.5	-1.5	-2.0	-1.2
Croatia	-1.0	-0.6	1.2	2.2	0.4	2.8	1.3	0.5	-0.5	-4.9	-5.0	-3.5
Czech Republic	-0.9	1.9	2.6	1.4	0.9	2.1	-1.4	0.2	0.8	-1.5	-2.0	-2.5
Hungary	1.1	2.5	1.9	1.7	0.5	2.6	2.9	2.6	2.2	-2.2	-2.9	-2.9
Kazakhstan	6.0	5.0	6.0	5.7	6.5	5.9	-0.1	1.0	1.3	3.2	2.3	2.2
Poland	1.6	3.4	3.6	0.9	0.8	2.5	-1.3	-2.5	-3.7	-4.3	5.2	-2.7
Romania	3.5	3.0	3.4	4.0	2.0	3.4	-1.1	-2.5	-4.2	-2.5	-2.3	-2.3
Russia	1.3	1.0	2.3	6.8	6.8	5.8	1.5	2.7	1.9	-2.1	-4.4	-4.9
Serbia	2.5	1.2	2.0	7.9	3.5	5.8	-4.8	-4.8	-5.0	-5.7	-7.0	-6.5
Slovakia	0.9	2.1	2.6	1.4	0.2	1.2	2.4	2.8	3.4	-2.8	-3.0	-2.5
Turkey	4.0	2.2	3.5	7.5	8.6	7.9	-7.9	-5.2	-5.3	-1.2	-2.8	-3.2
Ukraine	0.0	-3.2	2.1	-0.3	7.2	7.3	-9.3	-5.3	-3.6	-6.7	-4.3	-3.4
Africa/Mideast	3.9	4.6	5.2	4.2	4.4	5.0	11.1	9.8	7.4	1.7	1.4	-0.3
Bahrain	5.3	4.0	4.0	3.3	2.5	2.0	6.8	5.5	1.3	-2.3	-3.5	-5.9
Egypt	1.5	2.4	3.2	9.5	9.1	7.1	-1.3	-1.1	-1.9	-9.3	-9.5	-8.4
Ghana	7.4	4.6	6.5	11.7	13.3	10.0	-12.7	-14.4	-14.1	-10.8	-10.2	-9.0
Iraq	3.1	10.4	11.6	1.9	3.0	5.5	13.3	13.6	12.6	-5.8	-2.3	-1.2
Israel	3.2	3.4	3.5	1.5	1.2	3.0	2.5	1.9	1.7	-2.7	-3.0	-2.5
Jordan	2.8	4.0	4.5	5.5	3.5	5.0	-11.3	-10.2	-7.9	-5.5	-9.6	-9.4
Kenya	4.7	5.5	6.1	5.4	6.6	6.7	-9.0	-7.6	-7.5	-7.8	-6.5	-5.5
Kuwait	5.7	3.8	3.9	2.6	3.0	4.5	37.9	40.4	38.3	28.8	32.2	26.5
Lebanon	1.4	2.0	2.4	2.1	3.8	5.0	-9.0	-9.8	-10.7	-9.3	-8.7	-8.0
Nigeria	6.6	6.4	6.4	8.5	8.8	10.6	3.8	2.4	1.4	-1.4	-1.7	-1.6
Oman	3.4	4.7	4.7	2.1	1.5	3.0	10.8	8.5	6.6	9.9	8.4	6.1
Qatar	6.5	5.9	6.2	3.1	2.5	3.5	30.9	29.4	25.1	8.2	4.2	1.2
Saudi Arabia	3.8	4.8	5.9	3.5	3.5	4.1	18.2	14.8	8.9	7.4	6.2	1.3
South Africa	1.9	2.3	2.9	5.8	6.5	5.8	-5.8	-4.9	-4.2	-4.3	-4.2	-4.2
Tanzania	6.8	7.0	8.1	7.9	7.4	6.6	-10.2	-14.1	-12.4	-5.0	-5.2	-5.9
UAE	3.7	4.0	4.0	1.1	1.8	2.1	26.2	21.4	17.0	NA	NA	NA
Uganda	6.0	6.0	5.5	5.5	5.9	6.8	-12.0	-13.9	-14.9	-3.4	-3.3	-4.5
Zambia	6.2	6.4	6.3	7.0	7.8	8.0	0.2	-1.0	-1.5	-6.5	-6.1	-5.5
Total	4.5	4.5	5.0	4.7	5.0	5.2	1.8	1.9	1.2	-2.0	-2.2	-2.4

Sources: National sources and Citi Research forecasts

Sovereign Ratings

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

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

Figure 42. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

	S&P Ratings				Moody's Ratings			
Country	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Canada	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3 (Stable)	A1 ↓
Germany	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
France	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa1
Italy	BBB	Neg	BBB (Stable)	BBB	Baa2	Stable	Baa2 (Stable)	Baa2
Spain	BBB-	Stable	BBB- (Positive)	BBB ↑	Baa2	Pos	Baa2 (Pos)	Baa1 ↑
Austria	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Belgium	AA	Stable	AA (Stable)	AA	Aa3	Stable	Aa3 (Stable)	Aa3
Finland	AAA	Neg	AAA (Neg)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Greece	B-	Stable	B- (Stable)	B-	Caa3	Stable	Caa3 (Stable)	Caa3
Ireland	BBB+	Positive	A- (Stable) ↑	A- ↑	Baa1	Stable	Baa1 (Stable)	A3 ↑
Netherlands	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
Portugal	BB	Neg	BB+ (Pos) ↑	BBB- ↑↑	Ba2	Pos W	Ba1 (Stable) ↑	Baa3 ↑↑
UK	AAA	Neg	AAA (Stable)	AAA	Aa1	Stable	Aa1 (Pos)	Aaa ↑
Switzerland	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Sweden	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Denmark	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
Norway	AAA	Stable	AAA (Stable)	AAA	Aaa	Stable	Aaa (Stable)	Aaa
EU	AA+	Stable	AA+ (Stable)	AA+	Aaa	Stable	Aaa (Stable)	Aaa
ESM	Not rated				Aa1	Neg	Aa1 (Neg)	Aa1
EFSF	AA	Stable	AA (Stable)	AA	Aa1	Neg	Aa1 (Neg)	Aa1

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

Expected Ratings Issues

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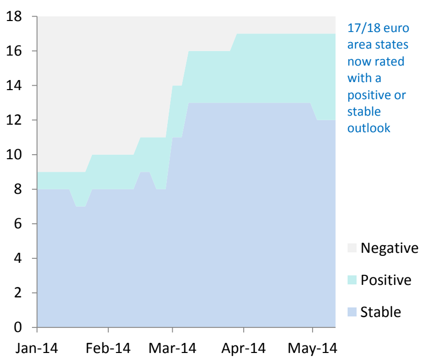
The first few months of the year have been very busy for the rating agencies. Together with a plethora of outlook revisions (typically from negative to stable), there have now been *three* upgrades by Moody's:

- Ireland from Baa3 to Baa1 on 16 May
- Spain from Baa3 to Baa2 on 21 February
- Portugal from Ba3 to Ba2 on 9 May.

Perhaps more striking are the revisions in rating "outlooks" seen already in 2014 (see Figure 44). In fact, only one sovereign in the euro area now carries a negative outlook by Moody's (France — which features on Moody's calendar this Friday, see below). On the other hand, five sovereigns have a positive outlook from Moody's: Cyprus (Caa3), Ireland (Baa3), Latvia (Baa2), Portugal (Ba2) and Spain (Baa2).

Figure 43. Moody's Rating "Outlooks" on Euro Area Sovereigns



Sources: Moody's and Citi Research

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

S&P on the Netherlands: We expect no change in the AA+ stable rating of the Dutch sovereign. S&P downgraded the Netherlands from AAA to AA+ in November 2013 on growth prospects being weaker than they had expected. The stable outlook reflects S&P's view that the policy consensus of containing public debt and deficits will be maintained.

Figure 44. Upcoming Rating Calendar.

Date	Sovereign	Rating Agency	Current Rating	Current Outlook
23-May-14	Netherlands	S&P	AA+	Stable
23-May-14	Spain	S&P	BBB-	Stable
23-May-14	France	Moody's	Aa1	Neg
23-May-14	Slovenia	Moody's	Ba1	Stable
30-May-14	Latvia	S&P	BBB+	Pos
06-Jun-14	Italy	S&P	BBB	Neg
06-Jun-14	Finland	Moody's	Aaa	Stable
06-Jun-14	Ireland	S&P	BBB+	Pos
13-Jun-14	Italy	Moody's	Baa2	Stable
13-Jun-14	Latvia	Moody's	Baa2	Pos
20-Jun-14	Spain	Moody's	Baa2	Pos

Source: Citi Research

S&P on Spain: At BBB-, S&P rates Spain the lowest out of Moody's (Baa2) and Fitch (BBB+). S&P's outlook was revised to stable from negative in November last year. While we do not expect a rating change next Friday, we think it likely that S&P revises its outlook to positive given improved economic performance and growth prospects.

S&P on Italy: Italy was affirmed at BBB negative in December last year by S&P. As indicated (S&P Research Updated 13th December 2013), "*According to our criteria, we could lower the rating if, in particular, we conclude that the government cannot implement policies that would help to restore growth and keep debt indicators from deteriorating beyond our current expectations*". In addition, S&P stated "*On the other hand, we could revise the outlook to stable if the government was to implement structural reforms to the labour, product, and service markets that would likely shift the Italian economy to a higher level of growth*" On balance, we believe the outlook will be revised to stable on 6th June.

Moody's on Ireland: Moody's recently upgraded Ireland by two notches from Baa3 to Baa1 with a stable outlook, a one-notch bigger upgrade than we expected. We still see scope for a further upgrade from both S&P and Moody's over time.

Yield and Spread Forecast Commentary

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US: Treasury yields moved lower in May across a range of maturities with 10y yields falling to 2.51%, just above their lowest level since July 2013. Despite instances of very strong data, including 288,000 jobs added in April, and a small increase in the rate of inflation, rates investors remain skeptical that the economic recovery, and Fed mid-2015 rate hike timeline, is on track. In addition, geopolitical concerns continued to weigh on yields. Citi's positioning market metrics indicate that there are still shorts in the market. This is consistent with recent price action, where rallies have been more violent than sell-offs. Fundamental data is still strong, though, and so we have not significantly changed our forecasts from last month.

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Core Europe: The broad policy scenario remains unchanged and Citi still expects depo/refi rate cuts at the June ECB meeting, followed by some sort of asset purchase plan towards the end of the year. Recent volatility in non-core markets as well as the breakout of USTs from this year's range have driven Bund yields far below what we consider to be a medium-term equilibrium. In order to challenge our 1.60% year-end forecast, we would need a significant change in the macro environment, both in terms of real activity as well as inflation. In the meantime, the yield curve continues to trade in a very directional fashion (bull flattening / bear steepening) and the contagion effect from periphery to semi-core is expected to be very moderate once we've cleared the European Election. As such we have left our forecast for OAT/Bund spreads unchanged at 40bp in Q4 2014.

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EMU Periphery: Political event risk is driving a correction in non-core EGBs with significant performance differences between Italy and Spain, because Spain not only lacks a Eurosceptic movement but is also perceived as being more flexible and responsive in tackling structural imbalances. Looking forward we still expect spreads to converge going into year-end, as the current return volatility is short-lived and might not be enough to derail the established trends of increasing non-resident participation in EMU peripheral assets. We have slightly adjusted our Bono/BTP spread forecast and we're now going for a flat differential at 120bp over Bunds at the end of this year. In the very near-term, we still see some room for Spain outperforming Italy, as scenario not too dissimilar from Q1 2013 when BTPs were rocked by political elections.

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UK: Our UK yield forecasts are little changed this month. Global bond markets have rallied, but the medium-term outlook for the UK is broadly unchanged, in our view. BoE Governor Carney may have sounded a little more dovish at the May *Inflation Report*, but the data continues to point to strong growth and shrinking spare capacity. Citi continues to expect the MPC to hike rates in November 2014. Front-end yields are likely to move higher, flattening the 2s10s curve. We also continue to expect 10yr gilts to underperform Bunds as the 'great de-coupling' becomes further entrenched.

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Japan: We have modified our forecasts on JGB yields on the back of change in our forecast on the expected timing for additional easing from this summer to autumn or even later. We expect a tighter range than before as a prolonged range-bound market is likely. It may well take longer than expected to judge whether or not the BoJ need to ease further. We expect volatility will remain low and that demand for carry will gradually push yields lower. On the other hand, sub-50bp of 10yr yield is less likely than before given that US rates are expected to increase over time. Although we revised up our lower bound of rates, we also revised down our upper bound of rates, so that 10yr yields will probably remain below 1% due to additional easing by the BoJ — including an increase in JGB purchases.

Figure 45. Interest Rate and Bond Market Forecasts as of 21 May 2014

		Quarterly Average (Unless Specified)					
	Current	3Q 14F	4Q 14F	1Q 15F	2Q 15F	3Q 15F	4Q 15F
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.75	1.00
3-Month Libor	0.22	0.22	0.22	0.35	0.65	0.85	1.05
2 Year Treasury Yield	0.34	0.60	0.80	1.05	1.25	1.50	1.70
5 Year Treasury Yield	1.52	2.00	2.30	2.50	2.65	2.75	2.85
10 Year Treasury Yield	2.51	2.95	3.20	3.40	3.45	3.50	3.55
30 Year Treasury Yield	3.35	3.60	3.80	3.85	3.90	3.90	3.90
2-10 Year Treasury Curve	216	235	240	235	220	200	185
2 Year Swap Spread (Swap Less Govt), bp	15	12	12	12	12	12	12
10 Year Swap Spread (Swap Less Govt), bp	10	15	15	15	15	15	15
30 Year Swap Spread (Swap Less Govt), bp	-2	-5	-5	-5	-5	-5	-5
30 Year Mortgage Yield	4.20	4.70	5.00	5.25	5.40	5.60	5.70
10 Year Breakeven Inflation	220	225	230	235	235	235	235
Euro Area							
Policy Rate End Quarter	0.25	0.10	0.10	0.10	0.10	0.10	0.10
Overnight Rate (EONIA)	0.18	0.00	0.00	0.00	0.00	0.00	0.00
3-Month (EURIBOR)	0.32	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Schatz Yield	0.08	0.10	0.05	0.05	0.05	0.05	0.05
5 Year Bobl Yield	0.46	0.60	0.50	0.50	0.50	0.60	0.60
10 Year Bund Yield	1.39	1.60	1.60	1.70	1.70	1.80	1.80
30 Year Bund Yield	2.27	2.35	2.35	2.45	2.45	2.55	2.55
2-10 Year Bund Curve	131	150	155	165	165	175	175
10 Year BTP-Bund Spread	187	140	120	120	120	120	120
10 Year Bono-Bund Spread	168	140	120	120	120	120	120
2 Year BTP-Schatz Spread	81	50	40	40	40	40	40
2 Year Bono Schatz Spread	74	50	45	45	45	45	45
10 Year OAT-Bund Spread	48	50	40	40	40	40	40
10 Year Swap Spread (Swap Less Govt.), bp	25	20	20	20	20	20	20
10 Year Breakeven Inflation	136	140	140	145	145	150	150
Japan							
Policy Rate End Quarter	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.14	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Treasury Yield	0.08	0.10	0.10	0.10	0.15	0.15	0.10
5 Year Treasury Yield	0.19	0.20	0.25	0.30	0.35	0.35	0.30
10 Year Treasury Yield	0.59	0.65	0.70	0.85	0.95	0.95	0.85
30 Year Treasury Yield	1.70	1.70	1.75	1.85	1.90	1.90	1.85
2-10 Year Treasury Curve	51	55	60	75	80	80	75
2 Year Swap Spread (Swap Less Govt.), bp	11	12	12	14	14	14	14
10 Year Swap Spread (Swap Less Govt.), bp	16	15	17	22	22	20	17
10 Year Breakeven Inflation	135	120	100	110	110	105	105
UK							
Policy Rate End Quarter	0.50	0.50	0.75	1.25	1.50	2.00	2.50
3-Month Libor	0.53	0.55	1.00	1.55	1.70	2.10	2.55
2 Year Treasury Yield	0.70	1.30	1.60	1.85	2.10	2.40	2.60
5 Year Treasury Yield	1.89	2.40	2.70	2.85	2.90	3.05	3.10
10 Year Treasury Yield	2.61	3.00	3.30	3.50	3.55	3.65	3.70
30 Year Treasury Yield	3.39	3.70	3.75	3.85	3.90	3.95	4.00
2-10 Year Treasury Curve	191	170	170	165	145	125	110
10 Year Swap Spread (Swap Less Govt.), bp	10	15	15	20	20	25	25
10 Year Breakeven Inflation	308	320	325	340	345	350	350
Australia							
Policy Rate End Quarter	2.50	2.50	2.50	2.50	2.75	3.00	3.25
3-Month Libor	2.71	2.60	2.75	2.80	3.10	3.25	3.50
2 Year Treasury Yield	2.69	2.80	2.95	3.30	3.60	3.80	3.93
5 Year Treasury Yield	3.18	3.55	3.90	4.15	4.30	4.45	4.60
10 Year Treasury Yield	3.66	4.15	4.40	4.65	4.75	4.85	4.95
2-10 Year Treasury Curve	97	135	145	135	115	105	102
10 Year Swap Spread (Swap Less Govt.), bp	28	35	40	40	45	45	50

Source: Citi Research

Commodities Market Outlook

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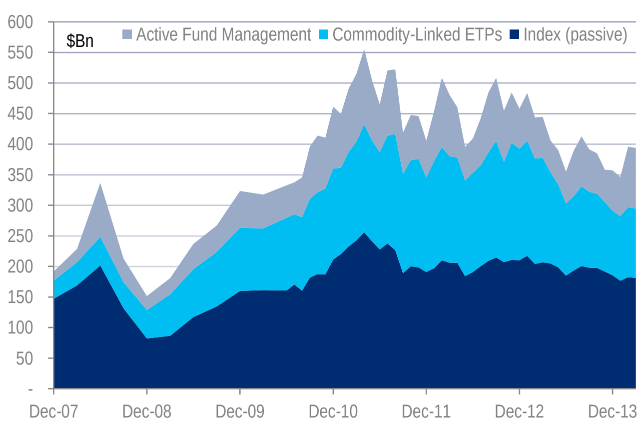
Commodities have rallied c8% this year against fundamental expectations—on the back of adverse weather in the US and Latin America, local policy decisions (i.e. Indonesia ore export ban/nickel) and geopolitical heat in the Black Sea region and Middle East. Investors have taken note and poured new money into commodity-linked funds and index swaps, further boosting asset market valuations this year after massive retrenchment in 2013 totaling a record c$50Bn. Indeed, year-to-date (through mid-May) aggregate passive net inflows have totaled more than c$5.75Bn with the strength broad-based across all major sectors including precious metals, energy and agriculture. This has fed through to higher consumer costs although we expect some of this to start measurably easing by the end of 2014. **Another factor behind the flows into commodities has been the move of the WTI forward curve into a structural backwardation, which provides a positive roll yield for index investors coupled with the breakdown of asset market correlations amongst commodities versus stocks, bonds and the US dollar, which provides macro investors a real diversification benefit for holding commodities exposure.**

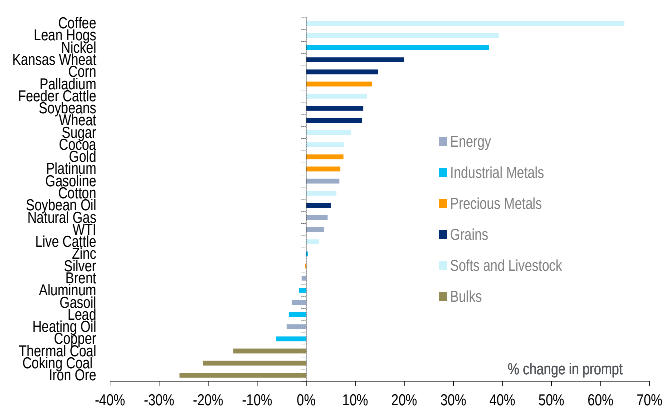
Final estimates of retail and institutional commodities assets under management (AUM) for 1Q 14 suggest a sharp 10.25% quarterly gain to c$394Bn at the end of March — down 11% year/year but some c$30Bn north of the 4Q'13 AUM average. While this figure (which excludes OTC/structured note products) remains a far cry from the recent AUM peak of c$555Bn in April 2011 during the height of the Libyan civil war and MENA spring, the across the board 1Q increase in market valuation for index, exchange traded product and actively managed funds totaling c$37Bn does confirm the sharp turnaround for the asset class this year after shedding a record c22% in AUM during 2013.

Figure 46. Retail and Institutional Commodities AUM



Sources: Citi Research estimates

Figure 47. Year-to-Date Commodity Price Changes*



Sources: Bloomberg, Citi Research, *through Friday 16 May

Brent prices have been stuck in range of $105 and $111 this year. Citi now expects this range to persist through the end of 2014 and to only slide slightly lower in 2015. Coming into 2014, the risks to the oil market looked clearly biased to the downside: Libya, Iran and Iraq all looked set to add significantly to OPEC supplies amid a continuation of the US shale revolution. The outlook for demand growth appeared weak given EM currency and general macro weakness, coupled with the structural headwinds to oil demand growth. But bullish geopolitics countered bearish fundamentals. Libyan exports have barely returned amidst ongoing protests. The Iranian nuclear negotiations continue but are now entering a

critical stage concerning the details of the nuclear fuel production capabilities that Iran will be allowed to retain. Iraq has seen export volatility amidst elevated levels of violence and a standoff with the KRG over payment, while the escalating violence in Nigeria adds to the heightened sense of supply fragility. Iran, Iraq and Libya could each account for an additional 1 m-b/d of crude over the coming year. The lumpy and uncertain nature of these potential supply additions makes for a great deal of uncertainty over the outlook for supply even though this is not evidenced in oil market implied vols as indicated by the very narrow trading range for flat price.

The Russia/Ukraine crisis in particular has introduced a large and completely unexpected source of geopolitical risk for the oil markets. The situation remains fluid, but a near term resolution with an end to tensions between Moscow and the West seems less likely. The West and Russia seem to be now locked into a relationship of Mutually Assured Destitution, given Russia's unmatched energy superpower status. Russia exports as much oil as Saudi Arabia and ~1.5 times as much gas as Qatar. Including coal, Russia's energy exports are equivalent to Saudi Arabia and Qatar combined (the world's second and third largest energy exporters). The ongoing crisis introduces upside risk to a market that was otherwise stuck in neutral to bearish territory. The supply disappointments from Kashagan and Libya, and the risk of returning Iranian volumes, coupled with the increasing instability in Nigeria, all point to a more balanced set of risks than was expected at the start of 2014. As such, **Citi's base forecast is now for the current trading band to hold through 2014, with a range bound market continuing next year but for prices to grind slightly lower.**

Global natural gas prices are either range-bound to lower, despite differences in geography. While unique sets of factors affect regional gas markets differently, the core price driver remains inventory levels in different regions. In the US, a cold winter left stocks depleted, causing a sharp price run-up to over $6 at one point. Although the rise has subsequently deflated to some extent, prices are staying in the ~$4.5/MMBtu range, still a steep change from last year's mid to high-$3 range. Current prices are more moderate than before because some in the trade believe that shale production growth would be so strong that gas inventories should be replenished to normal levels by the 2015-16 winter (even though inventories heading into the 2014-15 winter could be at an 8 to 10-year low despite vast growth in demand). An expectation of a mild summer, which reduces demand, also contributes to prices being more subdued. However, prices could be at the low-end of the range in an already tight fundamental market.

In contrast, the European market has a vast gas inventory overhang after a mild winter that the price decline is showing no sign of reversing despite the tension in Ukraine, which arguably should have a greater impact on gas flow than on oil. As of mid-May, gas inventories in the EU28 are at ~56% of capacity and nearly 70% full in the UK. The UK is also where the price benchmark NBP is set. In comparison, UK gas storage was ~26% full at the same time last year, with total European inventory also sizably lower then. The European market is exhibiting a very similar pattern to the US market back in 2012 but in a slow-motion drift lower, rather than the rapid capitulation seen in the US. The reason is that coal-to-gas switching in power generation (a mechanism used in the US), is not as effective in Europe because gas is still much more expensive than coal. Although prices have now fallen to the ~$7.5 range (~45-p/th), the marginal cost of gas-fired generation at ~$60/MWh could still be ~$20/MWh higher than coal. Elevated LNG flows into the UK, mainly from Qatar, also add to supply even with high gas inventories.

In global LNG, supply seems to be ample, where future supply can be viewed as current storage. Assessed prices have edged to the mid-$13 level through summer, down from the mid-$15 range last year and nearly $20 this past winter. However, some in the market expect a modest reversal when summer really begins. Nonetheless, certain utility buyers who have over-contracted could be looking to sell their LNG cargoes back in the spot market, while Japanese buyers did not seem to be as active, particularly as coal-fired generation has risen by more than 10% y/y so far. Longer term, the possible completion of the much anticipated pipeline gas deal between China and Russia could add further gas supply to the market later this decade.

For the copper market, Chinese macroeconomic concerns appear to have taken a back seat for now. Preliminary April trade data for China's unwrought copper and copper product imports category surprised the market on the upside, showing 52% y/y growth, while Chinese copper product fabrication rates picked up by around 24% y/y, which we believe has been driven by the impact of the placing of the year's first major tender from The China Grid Corporation in March. We understand that Chinese copper fabricators ran down copper inventory through the first quarter, in part due to the high cost of credit and the high costs in tying up capital in inventory, and thus rising fabrication rates had a quick follow through to physical copper demand. **It is worth emphasizing that the largest tender of the year from the China Grid Corp is due to be placed in July, and we therefore expect this to lead to a further boost to fabrication demand for copper in the following months.** As pointed out in our April 13 Quarterly Commodities Outlook, the dramatic pull back in both LME and SHFE copper prices in March appeared to be overdone, and somewhat divorced from the physical realities of the market. LME inventory draws remain increasingly supportive, with levels now at their lowest (at 186,253 MT) since October 2008, while SHFE stocks have generally been on a downward trend since mid-March. We expect LME draw trends in particular to be a continued feature of the copper market over the next month, while Chinese import volumes are also likely to remain supportive. **We continue to expect copper to trade in the higher reaches of a $6,500-$7,000/MT range, and see little prospect of significant downside moves.**

Nickel remains the key bullish story of the metals space, with prices hitting YTD highs of $21,625/MT in mid-May; trading levels playing out in line with our expectation that a restrictive Indonesian ore export ban would be introduced and adhered to, which in turn would significantly boost prices. However, the higher reaches of the rally do appear to have been a case of too much too soon, and as we outlined in our 9 May publication, *Nickel - where next for prices?* a pull back towards $18,500/MT was highly likely. Indeed, this would represent in our view a good buy in point on our expectation of further upside moves as the Indonesian ore export ban, introduced on January 12, increasingly tightens the nickel market. We forecast further H2 upside potential, as the market moves from a modest first half surplus into a growing second-half 2014 deficit.

Iron ore prices have fallen to new lows on the year, breaching $105 per Citi forecasts. We have previously highlighted Q2 as the time of greatest downside pressure to iron ore prices due to a combination of seasonal demand weakness in China before any fundamental improvement (anticipated in August or September), and rising supply. Supply growth is coming from three main sources: 1) strong underlying production growth from RIO and FMG (unlike last year when Australian supply growth was concentrated in the last four months of the year, this year is focused on Q2); 2) increase in Chinese domestic production as northern mines that had delayed seasonal restarts due to low prices in March have now resumed production thanks to better April prices; and 3) seasonal increase in Brazilian

exports. Near term price risk remains to the downside, but declines below $100 are not expected to be prolonged, with Q3 prices forecast to be in the low $100s.

Thermal coal prices have remained subdued over the past month. We expect prices to move somewhat lower over the summer (NEWC averaging $72) as production curtailments remain modest, Indonesian production continues to expand despite government efforts, Chinese demand hits a seasonal low period, and US exports increase.

The combination of adverse weather conditions in Latin America and California, geopolitical heat in the Black Sea grain producing bloc, piglet disease, low calf/cattle inventories and robust US export sale developments boosted agriculture prices across the board through April of this year and against the fundamental backdrop for most crops considering the bumper 2013 Northern Hemisphere harvest. **But 1H 14 price strength could lead to new-crop price weakness for many staple crops save for perhaps a few 'equatorial/emerging market' softs such as cocoa and coffee where balances appear tight and could be further buttressed by an El Nino event in 2H 14.** Grain prices already seem to be easing in May for the benchmark row crops including corn and soybeans as sowing progress and weather conditions have improved. Yet another record US corn crop and stabilising (flat) annual demand growth for ethanol output (representing c40% of US consumption) should see Dec. 1 2014 peak inventories scale 11-bn bushels to an all-time high and weigh on prices by year-end where we see about 15-20% downside from current levels of USd480/bu. Soybean prices could stay elevated for the next three months and keep supporting bull-spreading of the forward curve as US balances appear even tighter than 2012/13. But record US planted acres, ongoing market competition from Latin America on the supply-side and easing of the rate of Chinese demand growth can send prices towards USd1000/bu in 4Q'14. Soft commodities such as cocoa and coffee are likely to remain in historically higher trading ranges however — during 2H 14 and into 2015 — as balances are already tight and the increasing probability of an El Nino event can enhance price and supply volatility for these non-US centric crops.

Figure 48. Commodity Price Forecast Table

		Point Prices																
		0-3M	6-12M		Q3 2013	Q4 2013	Q1 2014	Q2 2014E	Q3 2014E	Q4 2014E	Q1 2015E	Q2 2015E	Q3 2015E	Q4 2015E	2012	2013	2014E	2015E
Energy				**5Y Cyclical**														
NYMEX WTI	USD/bbl	103.0	103.0	81.0	108.0	97.6	99.0	103.0	107.0	99.0	101.0	96.0	104.0	97.0	94.1	98.0	102.0	100.0
ICE Brent	USD/bbl	109.0	110.0	85.0	112.0	109.3	107.8	109.0	111.0	108.0	106.0	103.0	108.0	103.0	111.7	108.7	109.0	105.0
Henry Hub Natural Gas	USD/MMBtu	4.70	4.85	5.50	3.55	3.85	5.20	4.70	4.80	4.90	4.50	4.40	4.50	4.60	2.75	3.73	4.90	4.50
Base Metals				**LT Price**														
LME Aluminum	USD/MT	1,770	1,820	2,200	1,827	1,815	1,752	1,740	1,780	1,800	1,830	1,860	1,890	1,900	2,049	1,888	1,770	1,870
LME Copper	USD/MT	6,650	6,800	6,200	7,096	7,161	7,005	6,650	6,700	6,800	6,800	7,000	7,200	7,500	7,945	7,352	6,785	7,125
LME Lead	USD/MT	2,100	2,300	2,200	2,116	2,134	2,127	2,050	2,150	2,250	2,350	2,100	2,200	2,370	2,072	2,158	2,145	2,255
LME Nickel	USD/MT	19,000	22,000	21,000	13,996	13,980	14,693	18,400	18,500	19,000	22,000	23,000	24,000	26,500	17,592	15,105	17,650	23,875
LME Tin	USD/MT	23,000	24,500	20,000	21,284	22,951	22,622	22,900	23,000	24,000	25,000	24,000	23,000	25,000	21,108	22,340	23,130	24,250
LME Zinc	USD/MT	2,040	2,130	2,100	1,896	1,932	2,027	2,010	2,050	2,100	2,150	2,200	2,250	2,300	1,963	1,940	2,045	2,225
Precious Metals				**LT Price**														
COMEX Gold	USD/T. oz	1,320	1,360	1,050	1,330	1,274	1,297	1,310	1,330	1,340	1,340	1,350	1,360	1,400	1,669	1,416	1,320	1,365
Silver	USD/T. oz	20.6	21.4	16.5	21.5	20.8	20.5	20.4	20.8	21.0	21.5	21.9	22.4	23.2	31.2	24.0	20.7	22.3
Platinum	USD/T. oz	1,470	1,525	1,763	1,456	1,397	1,428	1,445	1,500	1,525	1,525	1,565	1,640	1,675	1,552	1,490	1,475	1,600
Palladium	USD/T. oz	820	860	780	729	725	745	800	830	850	875	900	900	925	645	728	805	900
Bulk Commodities				**5Y Cyclical**														
Hard Coking Coal (Spot)	USD/MT	120	130	200	143	142	122	117	130	135	145	150	155	160	191	148	130	153
Thermal Coal Asia (NEWC)	USD/MT	75	80	90	77	82	79	72	72	80	82	78	75	80	94	84	76	79
Iron Ore Spot (TSI)	USD/MT	105	100	81	133	135	120	110	102	100	98	92	85	85	128	135	108	90
Agriculture																		
CBOT Corn	USd/bu	470	390	N/A	512	430	450	470	440	380	420	450	505	505	695	578	435	470
CBOT Wheat	USd/bu	650	655	N/A	650	655	616	650	655	655	650	640	635	635	750	684	645	640
CBOT Soybeans	USd/bu	1,425	1,000	N/A	1,405	1,304	1,355	1,440	1,325	1,075	1,050	1,050	1,000	1,100	1,465	1,406	1,300	1,050
CBOT Rice	USD/cwt	15.4	15.3	N/A	15.6	15.5	15.5	15.3	15.0	15.0	14.4	14.2	14.1	14.1	14.9	15.5	15.2	14.2
NYB-ICE Cotton	USd/lb	90.0	78.0	N/A	85.6	80.3	88.0	90.0	85.0	75.0	75.0	75.0	75.0	75.0	80.0	83.3	85.0	75.0
Sugar#11	USd/lb	17.0	18.0	N/A	16.7	17.7	16.5	18.0	18.0	18.0	18.5	18.5	18.5	18.5	21.6	17.5	17.6	18.5
ICE Coffee	USd/lb	180	200	N/A	118	110	152	185	200	200	225	225	225	225	175	126	180	225
ICE Cocoa	USD/MT	3,000	3,200	N/A	2,420	2,706	2,880	2,950	3,100	3,075	3,400	3,400	3,500	3,300	2,348	2,405	3,000	3,400

Source: Citi Research, *subject to revision

Figure 49. Citi Global Economics Team *For Informational Purposes Only*

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