20 March 2013 | 48 pages

Global

Global Economic Outlook and Strategy

March 2013

- Our global growth forecasts are little changed from last month, and we look for global growth (at current exchange rates) of 2.7% in 2013 and 3.1% in 2014, rising to 3.6% in 2015. Within that, we are again marginally edging up our 2013 growth forecasts for Japan — the third consecutive monthly upgrade. China's growth seems to be levelling off at about 8% YoY in early 2013, while in the US private spending is picking up enough to offset the modest effects on domestic demand of federal fiscal tightening — past, present and anticipated in the future. In China, we expect that the easing bias in policies will be gradually removed during this year. The US Fed is likely to begin slowing the pace of asset purchases in H2 this year, but will probably not actually start to tighten policy until 2015.

- By contrast, the euro area remains stuck in recession, and we still believe that the EMU crisis is not over. Unresolved issues are not limited to the stand-off over the Cyprus bailout/bail-in. With revenues hit by economic weakness, Greece, Italy, Spain, Portugal, and Ireland should all continue to have high and rising general government debt/GDP ratios this year and next. We continue to expect some form of eventual restructuring (in NPV terms) of sovereign debt and/or official loans and/or bank debt in Greece, Cyprus, Portugal, Italy, Spain and Ireland. For Ireland at least this probably will not include PSI on sovereign debt, and, with about 50% of public debt in official hands for Ireland and Portugal — and about 80% for Greece — there is substantial scope for OSI as an alternative to PSI if policymakers desire. There is also increased willingness among EU policymakers to hit bank creditors rather than government debt holders. There are multiple possible triggers that could cause the euro crisis to escalate nearterm, including the unresolved Cyprus bailout (which could even lead to Cyprus exiting EMU in the near future), possible loss of support for the Greek government, and the possibility of fresh elections in Italy.

- The ECB and UK MPC remain likely to loosen further in response to continued economic weakness. The UK also looks likely to be downgraded from AAA (or equivalent) in coming months by other ratings agencies, in response to the stagnant economy and weak fiscal position. We believe Moody's will upgrade Ireland's rating by one notch from Ba1 to Baa3 (ie returning to investment grade) this year.

Figure 1. Currency and Interest Rate Forecasts, as of 20 March 2013

	20 March 2013	2Q 13F	3Q 13F	4Q 13F	1Q 14F	2Q 14F	3Q 14F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-Yr. Treasuries (Period Ave.)	1.96	2.05	2.30	2.60	2.85	3.00	3.20
Euro Area: US$/€	1.31	1.30	1.30	1.29	1.29	1.29	1.30
Euro Repo Rate	0.75	0.50	0.50	0.25	0.25	0.25	0.25
10-Yr. Bunds (Period Ave.)	1.36	1.40	1.65	1.55	1.35	1.55	1.55
Japan: Yen/US$	96	99	98	97	95	94	93
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.62	0.70	0.70	0.90	1.00	0.90	0.90

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

Chief Economist

Willem Buiter
+44-20-7986-5944
willem.buiter@citi.com

Global Head of International Economics

Nathan Sheets
+1-212-816-9297
nathan.sheets@citi.com

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

Robert V DiClemente
+1-212-816-7942
robert.diclemente@citi.com

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

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

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

Joaquin A Cottani
+1-212-816-2735
joaquin.cottani@citi.com

With thanks to Jan Maguire

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Figure 2. Forecast Highlights and Changes from Last Month

■ Global	Our global growth forecasts are little changed from last month, and we look for global growth (at current exchange rates) of 2.7% in 2013 and 3.1% in 2014, rising to 3.6% in 2015.
■ United States	Fiscal drag will likely weigh on growth toward midyear, but both demand and financial conditions have been more robust than anticipated and housing markets continue to rebound. The Fed is expected to begin tapering the pace of asset purchases in the second half of 2013. The base case now incorporates the full budget sequester.
■ Euro Area	We leave our growth forecasts roughly unchanged. While there is agreement among European leaders that additional fiscal tightening in order to meet the 2013 deficit targets has to be avoided, more tightening is in the pipeline for 2014 and beyond. The quasi bail-in of Cyprus bank depositors increases near-term risks of deposit flight, and, if it were to emerge, the ECB would probably try to tame it with additional non-standard measures. We continue to expect two 25bp refi rate cuts (the first in 2Q) in 2013, but have dropped the forecast of a negative deposit rate in our base scenario.
■ China	Domestic economic activities were weaker than expected in the first two months, but exports were surprisingly strong. We maintain our 1Q growth forecast at around 8% YoY. Abundant liquidity and credit early in the year should sustain investment and growth in 1H, but growth may fall below 8% in 2H as the easing bias of policies is gradually removed.
■ Japan	The new BoJ leadership took office on March 20. We expect the Bank will decide to consolidate the Rinban — JGB purchases conducted in terms of money market operations — and those under the asset purchase program and to purchase a much larger amount of longer-dated JGBs at a policy meeting on April 3/4 or April 26.
■ United Kingdom	The MPC remains likely to loosen further in response to persistent economic weakness, and their inflation remit may well be changed to a more flexible target, hence encouraging the bias to stimulus.
■ Canada	Reflecting lackluster global growth, domestic slack, benign inflation and material reduction of household imbalances, the BoC softened its tightening bias and extended the period for fixed rates. Hence, we have further delayed our call for the next rate hike from January 2014 to July 2014.
■ Australia	Recent developments have been mixed, but on balance suggest the RBA has enough signs to support its view that monetary stimulus is working and it need not act on its easing bias in the near term.
■ Emerging Asia (ex China)	Asia's headline inflation has begun to surprise on the upside, but core remains more benign, giving "cover" for some CBs to ease further — Philippines to deter PHP appreciation and reduce sterilization costs & India to support moribund growth — or keep rates low for longer than warranted — Indonesia and Thailand. Korea is an exception, resisting a cut (so far) despite JPYKRW decline. We expect Indonesia's external imbalances will prompt the earliest hike in Asia, but rising financial stability concerns should lead to macroprudential and other forms of tightening (eg tolerate some FX strength) in a few others, especially if US growth gathers momentum.
■ CEEMEA	A persistently weak Euro Area will keep central European activity weak, in spite of encouraging PMIs and aggressive loosening by the Polish central bank. Private sector deleveraging and weak external demand will be the main forces behind weak activity, but in some cases – eg Hungary, South Africa, Russia, Turkey — uncertainties about the quality of policymaking will also help cap potential growth.
■ Lat Am	In Brazil, we have changed our monetary policy call and now expect a hiking cycle to take the policy rate to 8.75%. In Mexico, we expect no further policy rate changes after Banxico's one-off 50bp cut. Argentina's loss of international reserves and worsening harvest outlook have put pressure on the FX market and add a negative bias to our forecasts. In Venezuela all eyes are on the upcoming presidential elections, where Nicolás Maduro looks likely to emerge as winner.

Source: Citi Research

Figure 3. Selected Countries — Industrial Production Forecasts (Pct.), 2012-14F

	2012F	2013F	2014F
World	**1.6%**	**2.5%**	**3.4%**
United States	4.1	3.8	4.2
Japan	-0.9	1.4	2.2
Euro Area	-2.3	-1.3	0.4
United Kingdom	-2.2	-0.7	0.8
Canada	1.2	0.9	1.7
China	10.0	10.0	9.3
India	3.1	4.4	5.6
Korea	0.8	3.4	5.0
Brazil	-2.7	2.5	3.8

Source: Citi Research

Overview — EMU Risks Never Went Away

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

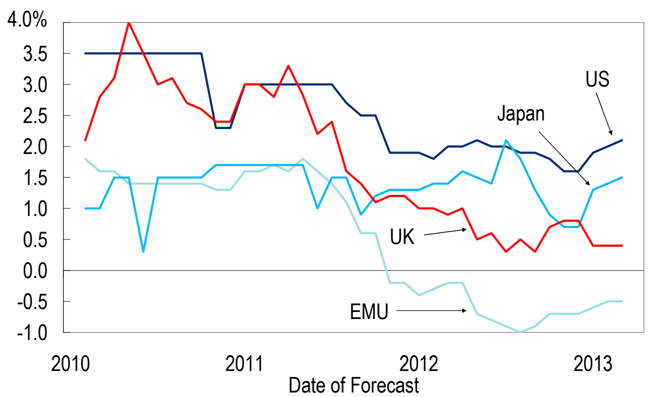
Our global growth forecasts are little changed from last month, and we look for global growth (at current exchange rates) of 2.7% in 2013 and 3.1% in 2014, rising to 3.6% in 2015. This implies that global growth will pick up from a little below average this year to an above-average pace in 2014 and beyond, but with the euro area markedly lagging versus other regions.

Our global growth forecasts are little changed, and we continue to expect a modest pick up in 2014-15

China's growth is leveling off at about 8%, while the US recovery is solid enough to withstand sequester-related fiscal drag

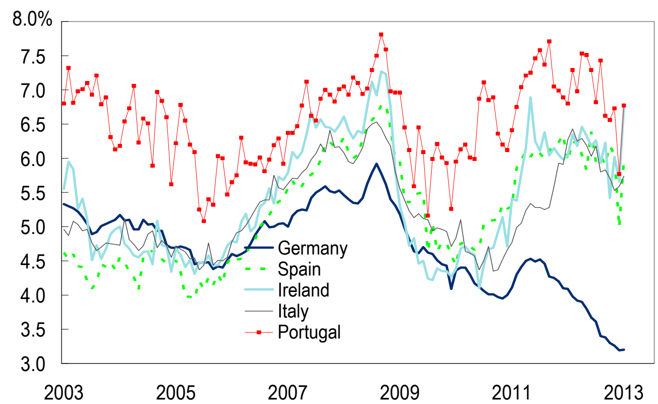
We are marginally edging up our 2013 growth forecast for Japan to 1.5% from 1.4% last month — the third consecutive monthly upgrade —.and 0.7% in Dec-12. Even so, we do not believe that enough stimulus is on the way to lift Japan's inflation to 2% YoY on a sustained basis, especially given the overhang of looming fiscal drag scheduled for 2014. China's growth seems to be leveling off at about 8% YoY in early 2013 and, with the trend of inflation creeping up and renewed rapid increases in house prices, we expect that the easing bias in policies will be gradually removed. We expect the central bank to steadily bring broad money growth down to 13% YoY (versus 15.2% YoY in February) and cap new RMB lending at RMB 8.5-9.0tn for 2013 as a whole. Specific, targeted interventions to limit house price appreciation are also likely. In the US, early 2013 data have been encouraging. We fully include sequester-related spending cuts in the outlook this month, but expect that these will be roughly offset by faster growth in private spending to lift growth to about 3% QoQ in H2 this year and into 2014-15. As recovery broadens, the Fed is likely to begin slowing the pace of asset purchases in H2 this year, but will probably not actually start to tighten policy until 2015.

Figure 4. US, EMU, Japan and UK— Citi Forecasts for GDP Growth in 2013, 2010-13



Source: Citi Research

Figure 5. Selected EMU Countries — Average Interest Rate on New Bank Loans Up to €1m to Non-Financial Businesses, 2003-13



Sources: ECB and Citi Research

The euro area remains stuck in recession, and the EMU crisis is still probably not over…

By contrast, the euro area remains stuck in recession, and we still believe that the euro area crisis is not over. The framework for supporting periphery countries and addressing banking sector weakness throughout the euro area continues to evolve. With clearer evidence of the adverse economic effects of procyclical fiscal austerity, especially from positions of severely depressed economic activity, fiscal timetables are being softened with more tolerance for cyclical fiscal slippage. Some of the potential future burden of funding periphery countries is shifting from the ESM to market funding backstopped by the possibility of the ECB's OMT programme. And while policymakers remain reluctant to impose PSI on sovereign debt, there is more willingness to impose PSI on bank creditors, with recent examples of complete expropriation of holders of unsecured subordinated debt in the Netherlands and the proposed bail-in of depositors, including insured depositors, for Cyprus. We continue to assume that Italy and Spain enter a ECCL ESM programmes with light additional conditionality this year, while Ireland and Portugal probably also will move

into ECCL programs after their current full Troika programmes — hence for all four countries allowing the activation of the ECB's OMT facility. Indeed, Ireland and perhaps Portugal may access the OMT facility even before they end their current programs, proved they can demonstrate full market access. Similarly, some investors may be repressed into buying periphery government bonds at relatively low yields via liquidity ratios and regulatory arm-twisting. This mix is likely to succeed in capping periphery bond yields in the next couple of years, especially at shorter maturities.

…with continued recession and poor credit availability in periphery countries

Nevertheless, we doubt that framework will succeed in restoring periphery countries to sustainable fiscal paths and zero output gaps, even if extended for several years. Tight fiscal policy and poor credit availability are likely to lead to continued recessions in 2013 and 2014 in Greece, Portugal, Italy and Spain, with modest (albeit positive) growth in Ireland. With revenues undershooting, Greece, Italy, Spain, Portugal, and Ireland will all continue to have high and rising general government debt/GDP ratios this year and next. Indeed, the slower pace of deficit reduction — while avoiding even greater fiscal-led economic weakness — also may imply a longer period of rising debt ratios (also in France and the Netherlands) and a longer period of fiscal tightening. Moreover, the ECB reports that interest rates on new bank loans up to €1million to non-financial businesses jumped again in January in periphery countries. These rates are now at or above the average levels of H2-2012, with spreads over Germany at or close to record highs, and represent extraordinarily high borrowing costs at a time of depressed economic conditions.

We continue to expect some form of debt restructuring in periphery countries, although the emphasis may be on OSI rather than PSI…

Even three years into the crisis, there does not seem to be a general framework for resolving the position of EMU countries with unsustainable trends in public finances or bank balance sheets. We continue to expect some form of eventual restructuring (in NPV terms) of sovereign debt and/or official loans and/or bank debt over time in Greece, Cyprus, Portugal, Italy, Spain and Ireland. For Ireland at least this probably will not include PSI on sovereign debt, and, with about 50% of public debt in official hands for Ireland and Portugal — and about 80% for Greece — there is substantial scope for OSI as an alternative to PSI if policymakers desire. In Italy, Spain and Cyprus, less than 10% of public debt is in official hands, but this ratio will probably rise markedly over time (assuming that the OMT facility is used for Italy and Spain).

…but the proposed measures in Cyprus also open up the possibility of wider fiscal measures as an alternative or accompaniment to PSI

However, the proposed tax on bank deposits in Cyprus also opens up prospects of wider one-off fiscal measures and/or bank debt and other private debt restructuring as an alternative or accompaniment to PSI on sovereign debt and/or OSI on official debt. The greater willingness in the euro area to bail in bank creditors should, in addition to raising default risk on all unsecured bank debt (including deposits), reduce sovereign default risk in countries with large and weak banking sectors. Unsecured creditors of banks and other financial institutions like insurance companies that have weak balance sheets and capital needs that cannot be met by the markets are right to be concerned that they are now more likely to bailed in as part of a resolution and recapitalisation programme. In addition, asset holders or cash-rich companies in other periphery countries may — with good reason — worry that they too may face one-off "taxes" to fill fiscal shortfalls if policymakers still seek to avoid PSI on sovereign debt, or wish to avoid imposing heavier burdens on more conventional and more politically sensitive tax bases or beneficiaries of public spending. This may be especially likely if official debt holders are unwilling to tolerate large NPV losses and are capable of enforcing these views, or for cases where OSI is inadequate to restore fiscal sustainability, or where asset holders lack political support in periphery countries. To be sure, Cyprus is "unique" in having such a large banking system. But, each euro area country is unique in its own way. Cyprus is certainly not unique in having an unsustainable position of its consolidated banking sector and public sector.

There are multiple potential triggers that could escalate the EMU crisis in coming weeks or months

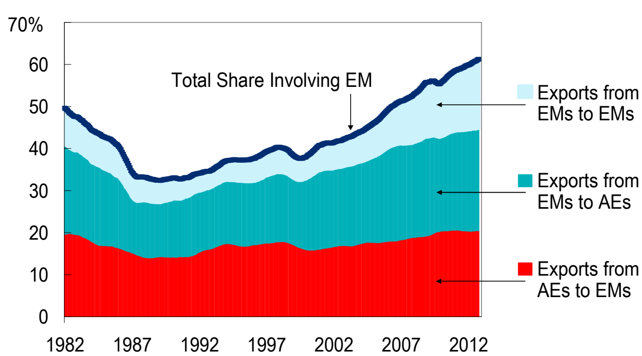
Most likely, the path to eventual debt restructuring of banks and sovereigns will play out over several years, with disappointing growth and periodic market flare-ups. But, there are multiple triggers that could cause the crisis to escalate much earlier. It may prove impossible to construct a Cyprus rescue package that satisfies the conflicting aims of the various parties involved. If so, then — even though the ECB may tolerate a further expansion of ELA in Cyprus for a while (despite the possible insolvency of some big Cypriot banks) — Cyprus may be heading for a major disorderly default on its sovereign and/or bank liabilities, perhaps also EMU exit (and even EU exit?). Italy may not be able to form a new government that is able to commit to a credible ECCL ESM programme – a necessary condition for OMT support. There probably will be another general election in Italy this year, and polls show that the M5S party's popularity is up since the last election. In Greece, the fragile government coalition may splinter as the economy slides, again reviving the possibility of a new government that will not even pretend to try to hit program targets. Any of these outcomes could quickly escalate EMU-wide tensions in coming weeks or months. In each case, the value of the ECB's willingness to do "whatever it takes" may be undercut by the inability of fiscally-strained governments to agree or sustain an ESM programme and hence to be eligible for the OMT facility.

Transformations in World Trade

World trade growth slowed markedly in 2012, but two major medium-term trends remain intact…

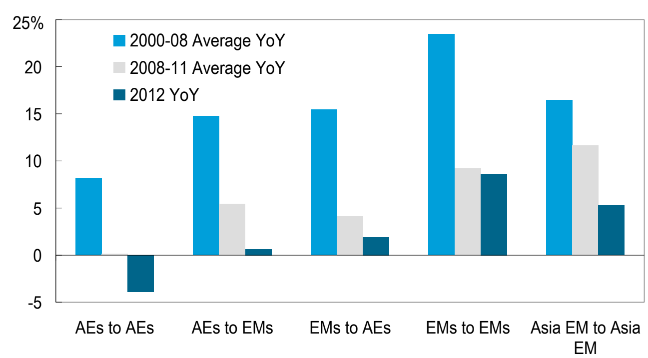
World trade growth slowed in 2012, with aggregate exports (in USD terms) up just 0.3% YoY in Jan-Oct 2012 after gains of about 20% YoY in 2010 and 2011, hit by slower economic growth and adverse translation effects from the weaker USD[1]. However, the combination of relatively high ongoing growth in emerging markets and sluggish aggregate expansion and deleveraging in many advanced economies continues to markedly change patterns of world trade.

Figure 6. Global Share of World Trade in Goods that Involves Emerging Markets, 1982-2012



AE Advanced economies. EM Emerging markets. Sources: IMF and Citi Research

Figure 7. Global — World Trade in Goods YoY, USD Terms, 2000-12



AE Advanced economies. EM Emerging markets. Sources: IMF and Citi Research

…with a growing weight of emerging markets…

- **Geographic Shift**. Exports by advanced economies to advanced economies (AEs) fell 3.9% YoY in Jan-Oct 2012, and exports from AEs to emerging markets (EMS) rose by just 0.6% YoY[2]. By contrast, exports from EMs to AEs rose by 1.9% YoY and exports from EMs to EMs rose by 8.6% YoY (with trade among Asia EM countries up by 5.3% YoY). In all, trade in goods between AEs is down by 6% over the last four years whereas trade among EMs is up by 38%. The

[1] See "Global Economics View - Slow trade, fast trade transformation", Ebrahim Rahbari and Deimante Kupciuniene, Citi, 11 March 2013.

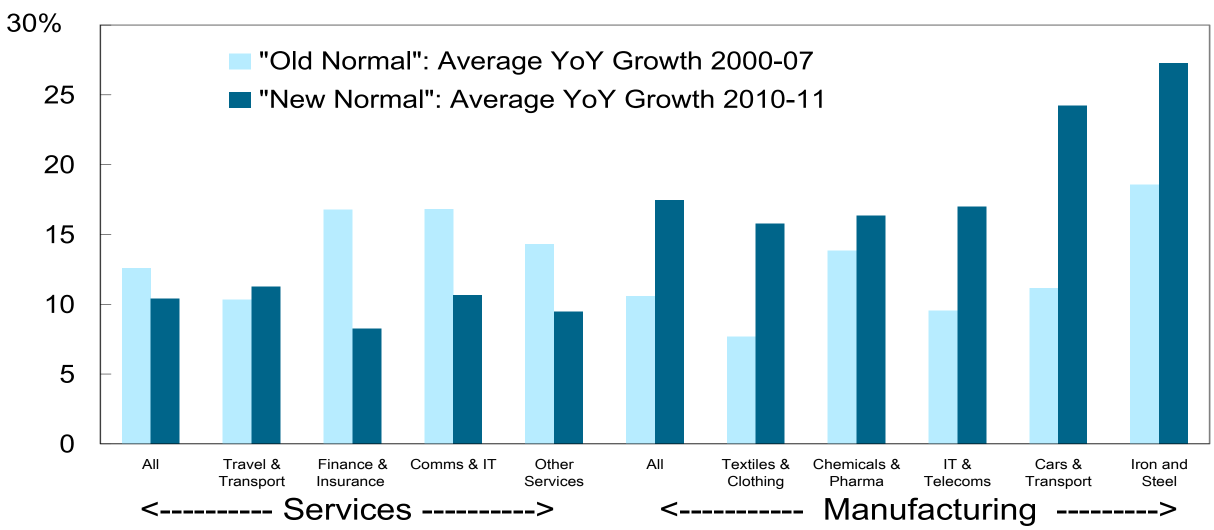
[2] Data is from the IMF Direction of Trade Statistics database.

share of world trade in goods that involves EMs as either importer or exporter is up to 62.0% in Jan-Oct 2012 (latest data) from 59.8% in 2011 and 42.5% in 2002.

…and greater emphasis on goods rather than services, especially financial services

- **Product Shift**. World trade in goods generally is matching or outpacing trade in services, and in particular outpacing trade in financial services. In the pre-crisis period of 2000-07, world trade in services rose by 12.6% YoY in USD terms — with trade in financial services up by 16.8% YoY — outpacing trade in goods (10.6% YoY in USD terms). But, over 2010-11, trade growth in services averaged 10.4% YoY, with trade in financial services up by 8.2% YoY — roughly half the pre-crisis norm. By contrast, trade growth in manufactured goods averaged 17.5% YoY in 2010-11, well above the pre-crisis norm, with especially high gains in trade in IT and telecoms equipment (17% YoY), cars and transport equipment (24% YoY), plus iron and steel products (27% YoY). Including the declines of 2008-09, trade in financial services rose by 4.9% over the whole period from 2007-11, whereas manufactured goods trade rose by 20.5%. Available data suggest that trade in goods and services were both roughly flat in 2012. But, for a matched sample of 87 major countries, exports of goods rose by 50% during 2009-12 in USD terms, twice the gain of services exports (up 25%)[3].

Figure 8. Global — YoY Growth of World Trade in Goods and Services (USD Terms), 2000-11



Sources: WTO and Citi Research

The major emerging markets account for a greater share of world trade in goods rather than services, and the EM boom favours exporters of goods and commodities rather than services

These trends are likely to persist for now, as high economic growth lifts the EM share of world trade, and many major EMs are more open to trade in goods rather than services (especially financial services). For example, imports by the biggest 30 emerging markets (ranked by GDP in local currency terms) account for 37% of trade in manufactured goods, 33% of trade in commercial services and just 8% of trade in financial services. As a result, trade in financial services largely depends on advanced economies — where growth is relatively sluggish — whereas trade growth in goods is chiefly driven by high-growth EMs. But there is considerable variation across different service sector industries: the biggest 30 emerging markets account for 37% of world trade in travel and transport services for example, and trade growth in these industries has stayed reasonably strong even in the post-crisis period (10.4% YoY in 2000-07, 11.3% YoY in 2010-11).

[3] Source: WTO.

Figure 9. Selected Countries — Economic Forecast Overview (Percent), 2012-2017F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Global	**2.5**	**2.7**	**3.1**	**3.6**	**3.9**	**3.7**	**2.8**	**2.8**	**3.1**	**2.5**	**2.4**	**2.5**	**2.34**	**2.23**	**2.42**	**2.79**	**3.18**	**3.27**
Based on PPP weights	*3.1*	*3.2*	*3.6*	*4.1*	*4.3*	*4.2*	*3.3*	*3.2*	*3.5*	*2.9*	*2.9*	*2.9*	*2.93*	*2.81*	*3.00*	*3.35*	*3.70*	*3.75*
Industrial Countries	**1.2**	**1.1**	**1.5**	**2.4**	**2.6**	**2.2**	**1.8**	**1.6**	**1.9**	**0.9**	**0.9**	**0.9**	**0.62**	**0.46**	**0.46**	**0.86**	**1.34**	**1.84**
United States	**2.3**	**2.1**	**2.8**	**3.5**	**4.0**	**3.0**	**1.8**	**1.7**	**2.1**	**2.1**	**2.1**	**2.1**	**0.25**	**0.25**	**0.25**	**1.10**	**2.10**	**2.90**
Japan	**2.0**	**1.5**	**1.3**	**1.5**	**1.2**	**1.2**	**0.0**	**0.0**	**1.8**	**0.7**	**0.5**	**0.7**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**
Euro Area	**-0.5**	**-0.5**	**-0.3**	**1.1**	**1.3**	**1.4**	**2.5**	**1.7**	**1.5**	**1.4**	**1.4**	**1.3**	**0.88**	**0.50**	**0.25**	**0.25**	**0.31**	**0.75**
Canada	1.8	1.6	2.5	3.2	3.3	2.8	1.5	1.1	1.8	2.0	2.0	2.0	1.00	1.00	1.38	2.50	3.00	3.00
Australia	3.6	2.4	3.0	3.5	3.6	3.2	1.8	2.8	2.5	2.8	2.5	2.3	3.56	2.56	3.25	4.00	4.75	4.75
New Zealand	2.2	2.6	2.8	3.0	3.3	3.1	1.1	1.2	2.3	2.3	2.8	2.5	2.50	2.50	3.50	4.75	5.00	5.00
Germany	0.9	0.8	0.8	1.8	1.9	2.0	2.0	1.6	2.3	2.1	2.0	1.9						
France	0.0	-0.2	0.2	1.0	1.5	1.9	2.2	1.0	1.7	1.6	1.8	1.6						
Italy	-2.4	-1.6	-1.4	0.3	0.2	0.2	3.3	2.3	1.4	0.6	0.3	0.3						
Spain	-1.4	-2.2	-2.1	0.8	1.6	1.3	2.4	1.8	0.7	0.8	0.7	0.6						
Greece	-6.4	-6.0	-11.2	-3.9	1.6	2.7	1.0	0.7	17.5	13.4	8.1	6.8						
Ireland	0.4	0.7	1.9	2.4	3.1	2.9	2.7	1.3	1.4	1.6	1.6	1.6						
Portugal	-3.2	-3.7	-2.8	0.0	1.1	1.0	2.8	0.3	0.5	0.5	0.6	0.5						
Netherlands	-0.9	-1.0	0.0	1.0	1.2	1.6	2.8	2.9	1.8	1.6	1.8	1.8						
Belgium	-0.2	-0.1	0.3	1.2	1.5	1.8	2.8	1.5	2.0	2.0	2.0	2.1						
Denmark	-0.6	0.4	1.8	1.8	1.9	2.0	2.4	1.8	1.9	1.9	2.0	2.0	0.43	0.10	0.20	0.40	0.60	1.00
Norway	3.3	2.8	2.8	3.0	2.9	2.9	0.7	1.7	1.8	2.1	2.3	2.5	1.55	1.50	1.69	2.25	2.76	3.33
Sweden	1.2	1.0	1.9	2.2	2.5	2.7	0.9	0.4	1.4	1.8	2.2	2.3	1.45	0.89	0.75	1.07	1.73	2.29
Switzerland	1.0	1.1	1.1	1.5	1.6	1.5	-0.7	-0.4	-0.4	0.7	0.8	1.0	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.2	0.4	0.7	1.7	1.8	1.7	2.8	3.1	2.9	2.9	3.1	3.0	0.50	0.50	0.50	0.50	0.50	1.04
Emerging Markets	**4.7**	**5.2**	**5.5**	**5.5**	**5.6**	**5.7**	**4.5**	**4.7**	**4.8**	**4.7**	**4.5**	**4.6**	**5.21**	**5.01**	**5.32**	**5.56**	**5.70**	**5.17**
China	7.8	7.8	7.3	7.0	7.5	7.3	2.6	2.8	3.6	3.8	3.8	4.0	3.25	3.13	3.50	3.75	3.88	4.00
Taiwan	1.3	3.5	4.0	4.0	4.5	4.5	1.9	1.7	2.0	1.8	1.8	1.8	1.88	1.88	1.97	2.38	2.88	3.38
India	5.0	5.7	6.4	7.2	7.3	7.4	7.5	7.0	6.0	6.0	6.0	6.0	7.80	7.50	7.50	7.50	7.50	7.50
Indonesia	6.2	6.2	6.3	6.5	6.5	6.7	4.3	4.7	4.7	5.7	5.4	5.3	3.90	4.19	4.50	4.63	5.13	5.30
Korea	2.0	3.2	4.1	4.3	4.2	3.7	2.2	2.5	3.0	3.2	3.1	3.0	3.06	2.63	3.31	3.75	4.13	4.38
Czech Republic	-1.2	-0.2	0.9	2.0	2.3	2.7	3.3	2.1	1.5	2.3	1.8	2.0	0.51	0.05	0.08	0.79	1.63	2.40
Hungary	-1.7	-0.1	1.2	1.0	1.4	1.7	5.7	2.7	3.1	3.9	3.5	3.3	6.77	4.71	4.50	4.44	4.00	4.10
Poland	2.0	1.3	2.8	3.3	3.3	3.2	3.7	1.7	2.4	2.5	2.5	2.5	4.61	3.35	3.29	4.15	4.73	4.74
Romania	0.0	1.0	2.8	3.5	4.0	4.0	3.3	5.3	3.6	3.0	2.5	2.5	5.25	5.25	5.50	5.50	5.00	5.00
Russia	3.4	3.0	3.6	3.3	3.3	3.3	5.1	6.7	5.4	5.0	4.9	4.7	8.07	8.10	7.50	7.00	7.00	7.00
Turkey	2.5	4.0	4.3	4.2	4.3	4.3	8.9	7.4	7.3	6.9	6.4	5.8	5.69	5.19	6.88	8.00	8.00	7.50
Nigeria	7.4	6.8	7.2	6.9	7.2	7.0	12.2	9.8	9.7	12.2	10.8	9.9	12.00	11.50	10.50	12.50	11.00	9.00
South Africa	2.4	2.8	3.1	4.0	4.2	4.4	5.7	5.9	5.3	5.5	5.6	5.6	5.25	5.00	5.08	6.17	6.50	6.50
Argentina	1.9	3.0	3.0	2.0	-2.0	3.5	10.0	12.6	14.5	15.0	50.0	30.0	13.89	17.74	20.83	22.00	22.00	22.00
Brazil	0.9	3.1	4.0	3.5	3.5	3.7	5.4	6.3	5.5	5.4	4.8	4.5	8.46	8.00	8.75	9.13	9.25	8.75
Mexico	3.9	3.6	3.8	4.0	3.8	3.7	4.1	3.7	3.6	3.6	3.6	3.6	4.50	4.08	4.00	4.44	5.90	6.42
Venezuela	5.6	1.0	2.0	2.1	2.5	2.5	21.1	24.6	24.0	26.0	24.0	24.0	14.50	14.50	14.50	14.80	14.80	14.80

Note: For inflation, we use the PCE deflator in the US, wholesale price index in India, GDP deflator in Ireland. We assume Grexit in 2014. For Indonesia we refer to the FasB1 rate to reflect actual money market rates.
Source: Citi Research

Figure 10. Selected Countries — Economic Forecast Overview (Percent), 2012-2017F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Global	**0.4**	**0.4**	**0.2**	**0.0**	**-0.2**	**-0.3**	**-4.4**	**-4.1**	**-3.4**	**-2.9**	**-2.5**	**-2.3**	**88**	**89**	**89**	**88**	**87**	**85**
Based on PPP weights	0.2	0.2	0.0	-0.2	-0.3	-0.5	-4.3	-4.0	-3.4	-3.0	-2.6	-2.4	79	80	79	78	77	75
Industrial Countries	**-0.7**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-6.0**	**-5.5**	**-4.1**	**-3.2**	**-2.9**	**-2.5**	**116**	**121**	**121**	**122**	**123**	**122**
United States	**-3.0**	**-2.7**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-8.3**	**-7.0**	**-4.9**	**-4.0**	**-4.0**	**-4.0**	**106**	**109**	**111**	**112**	**112**	**112**
Japan	**1.0**	**0.3**	**1.5**	**1.5**	**1.5**	**1.3**	**-10.7**	**-9.8**	**-7.0**	**-6.2**	**-5.8**	**-5.4**	**237**	**244**	**245**	**250**	**254**	**257**
Euro Area	**1.2**	**2.6**	**2.5**	**2.5**	**2.5**	**2.5**	**-3.4**	**-2.7**	**-2.4**	**-1.4**	**-0.9**	**-0.4**	**92**	**95**	**94**	**93**	**91**	**89**
Canada	-3.7	-3.2	-2.7	-1.7	-1.4	-1.0	-1.4	-0.9	-0.4	-0.1	0.1	0.2	86	86	85	83	82	80
Australia	-3.9	-4.7	-5.3	-3.5	-3.2	-3.0	-3.0	-0.8	0.0	0.2	0.3	0.5	29	30	28	26	24	23
New Zealand	-5.0	-5.5	-6.8	-7.3	-6.9	-6.5	-5.3	-3.1	-0.9	-0.5	-0.2	0.3	39	38	41	40	41	42
Germany	7.0	6.8	5.7	5.6	5.5	5.5	0.1	-0.2	-0.2	-0.2	-0.1	0.0	82	82	81	78	76	74
France	-2.4	-1.7	-0.9	-0.3	0.2	-0.1	-4.5	-3.6	-3.0	-2.4	-1.5	-0.2	91	96	97	97	96	92
Italy	-0.6	-0.3	-0.2	-0.1	-0.2	-0.2	-3.0	-3.0	-3.2	-0.7	-0.4	-0.5	127	131	135	135	134	133
Spain	-0.8	2.3	3.7	3.0	2.3	1.4	-10.2	-6.4	-5.9	-5.6	-4.8	-4.4	84	95	105	109	111	113
Greece	-4.3	-3.3	2.1	3.9	4.4	3.2	-7.4	-5.7	-1.3	-0.4	2.9	4.1	159	180	402	360	293	81
Ireland	4.5	5.8	6.7	7.5	8.3	8.9	-7.9	-7.1	-4.2	-2.2	-1.5	-1.0	117	120	118	113	107	101
Portugal	-3.5	-0.3	1.7	2.6	2.9	3.2	-6.0	-5.7	-6.1	-5.2	-4.6	-4.6	122	135	147	152	154	156
Netherlands	9.9	9.9	9.0	9.6	9.7	9.9	-4.1	-3.8	-3.3	-1.8	-1.5	-0.5	71	75	78	78	78	76
Belgium	-0.9	-0.7	-0.8	-0.7	-0.5	0.0	-2.9	-2.6	-2.2	-1.4	-0.8	-0.1	110	116	116	113	110	106
Denmark	5.3	4.7	4.0	4.2	4.0	3.8	-3.8	-2.0	-1.2	-1.0	0.5	1.0	50	51	50	49	47	44
Norway	14.2	14.5	14.9	15.2	15.4	15.0	13.6	13.2	13.0	14.0	15.5	15.0	NA	NA	NA	NA	NA	NA
Sweden	7.2	7.3	7.1	6.9	7.0	7.0	-0.5	-1.2	-1.5	-0.4	0.7	1.5	37	37	38	37	34	31
Switzerland	12.8	12.8	12.0	12.1	13.2	14.0	0.5	0.4	0.4	0.3	0.2	-0.6	47	46	44	44	44	44
United Kingdom	-3.6	-4.5	-4.4	-4.2	-4.1	-3.9	-5.8	-8.4	-8.0	-7.1	-5.9	-5.2	90	98	104	106	108	109
Emerging Markets	**2.1**	**1.4**	**0.9**	**0.3**	**-0.1**	**-0.4**	**-1.8**	**-2.1**	**-2.4**	**-2.4**	**-2.0**	**-2.1**	**42**	**41**	**40**	**39**	**38**	**37**
China	**2.6**	**2.4**	**2.2**	**1.5**	**1.0**	**0.5**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-1.5**	**-1.5**	**43**	**42**	**40**	**39**	**37**	**35**
Taiwan	10.5	8.4	8.0	8.0	8.0	8.0	-1.6	-1.2	-1.3	-1.0	-0.7	-0.5	39	40	42	43	44	44
India	-4.7	-4.3	-3.6	-3.6	-3.6	-3.6	-8.6	-8.3	-7.8	-7.2	-6.7	-6.2	68	67	66	65	64	63
Indonesia	-2.8	-2.1	-1.8	-1.2	-0.9	-0.8	-1.8	-1.5	-1.4	-1.0	-0.5	-0.4	24	22	21	21	20	20
Korea	3.8	2.5	1.9	1.0	0.3	-0.5	1.4	1.1	1.4	2.5	2.7	2.0	34	33	31	29	27	26
Czech Republic	-2.0	-1.5	-1.8	-0.7	-0.2	-0.8	-4.8	-3.0	-2.7	-2.2	-1.5	-0.5	46	48	50	50	49	47
Hungary	1.8	3.0	3.5	4.0	4.4	4.8	-2.7	-2.9	-3.6	-3.0	-2.8	-3.0	79	79	79	79	78	77
Poland	-3.5	-2.7	-3.5	-4.0	-4.2	-4.2	-3.5	-3.5	-2.8	-2.5	-2.4	-2.5	52	53	51	51	50	49
Romania	-3.9	-3.8	-4.5	-4.7	-5.0	-5.0	-2.2	-2.2	-2.5	-2.3	-2.0	-2.0	41	40	39	38	37	37
Russia	4.2	2.8	0.9	-1.7	-3.2	-4.2	-0.7	-2.0	-4.2	-4.7	-2.7	-2.7	8	8	10	13	14	15
Turkey	-5.8	-6.8	-6.9	-6.5	-6.0	-5.3	-2.0	-2.2	-2.7	-2.7	-3.0	-3.0	38	37	36	36	36	36
Nigeria	2.4	3.7	3.3	2.0	1.4	0.5	-2.8	-2.6	-2.8	-3.2	-2.7	-2.8	NA	NA	NA	NA	NA	NA
South Africa	-6.0	-5.7	-5.5	-4.6	-3.3	-3.1	-5.0	-5.2	-5.0	-4.6	-4.1	-4.0	41	42	43	43	43	42
Argentina	0.7	0.4	0.2	0.2	3.0	1.0	-2.4	-2.7	-2.9	-3.8	0.0	-0.5	39	40	42	44	42	40
Brazil	-2.5	-3.1	-3.2	-3.3	-3.4	-3.6	-2.6	-2.4	-2.2	-1.8	-2.0	-1.8	57	57	57	57	58	58
Mexico	-0.6	-1.4	-1.5	-2.5	-2.7	-2.7	-2.6	-2.1	-2.0	-2.0	-2.0	-2.0	40	38	38	38	37	37
Venezuela	4.5	5.0	5.7	6.1	5.3	5.5	-5.0	-4.0	-4.0	-4.8	-4.6	-4.5	41	46	41	42	43	43

Note: Fiscal deficit and debt figures for all countries are general government debt and deficits. We assume sovereign debt restructuring in Portugal, Italy and Spain in 2015 and Greece in 2017. We assume Grexit in 2014. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€33.5bn). Source: Citi Research

Figure 11. Selected Countries — Changes in Economic Forecast from the Previous Month (Percentage Points), 2012-2014F

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Global			**-0.1**						**-0.1**			**-0.1**
Based on PPP weights	0.1		-0.1									
Industrial Countries			**-0.1**		**0.1**			**-0.1**	**-0.2**	**-0.1**	**-0.2**	**-0.2**
United States	**0.1**	**0.1**	**-0.1**	**0.1**	**0.1**			**0.1**			**0.2**	**0.1**
Japan	**0.1**	**0.1**			**0.2**	**-0.1**			**0.1**			
Euro Area								**-0.4**	**-0.9**	**-0.1**		
Canada	-0.1	0.1	-0.2		-0.4	-0.1	0.2		-0.1			
Australia												
New Zealand												
Germany					-0.3		0.7	0.9	0.3	-0.1	-0.1	0.1
France					-0.3		-0.1	-0.2	-0.2		0.1	
Italy	-0.2									-0.2	-0.2	-0.2
Spain	-0.1				0.5	0.4	0.5	0.2	0.8			
Greece		0.3	0.1		0.3	0.1			-0.1			
Ireland	-0.1	-0.2	0.3				-0.2	-1.0	-1.0		-0.1	
Portugal					-1.1	-0.3	0.2	1.1	2.7	-1.0	-0.3	-1.0
Netherlands		-0.1	-0.3		0.3	0.1		-0.1				0.5
Belgium					0.3	0.1					-0.1	
Denmark	-0.2	-0.5					0.2	0.2	0.1			
Norway						-0.2	-0.1	-0.4	-0.3			
Sweden	0.1		0.1			-0.3	0.1					
Switzerland		-0.3	-0.1		0.5	0.2	0.4	0.2	-0.7	-0.1	-0.2	-0.2
United Kingdom	0.2				0.1			-0.3	-0.3		-0.5	-0.6
Emerging Markets								**0.1**	**0.2**	**0.1**		
China								**0.4**	**0.7**	**0.4**		
Taiwan												
India									0.1			
Indonesia									-0.1			
Korea					-0.1			0.5	0.3			
Czech Republic						0.2	0.3	0.3	0.9		0.1	
Hungary		-0.4	-0.1		-0.5	-0.3	0.3	0.3	0.3			
Poland					-0.1							
Romania	-0.2		-0.1				-0.2					
Russia					0.1			0.1				
Turkey	-0.3						0.2		0.2			
Nigeria					-0.4	0.3						
South Africa				-0.1	-0.1							
Argentina												
Brazil			-0.2		0.1	0.1		-0.1				
Mexico										-0.4		
Venezuela	0.4				0.3	-0.3	-0.4	-0.1				

Source: Citi Research

Figure 12. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent), 2012-2017F

	10-Year Yields						Exchange Rates Versus U.S. Dollar*						Exchange Rate Versus Euro					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Industrial Countries																		
United States	**1.77**	**2.20**	**2.90**	**3.25**	**3.50**	**3.75**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.28**	**1.30**	**1.30**	**1.31**	**1.34**	**1.37**
Japan	**0.85**	**0.76**	**0.93**	**1.38**	**1.50**	**1.63**	**81**	**98**	**93**	**89**	**86**	**83**	**104**	**127**	**121**	**117**	**115**	**114**
Euro Area	**1.57**	**1.54**	**1.55**	**1.80**	**2.00**	**2.50**	**1.28**	**1.30**	**1.30**	**1.31**	**1.34**	**1.37**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	1.87	2.25	2.85	3.25	3.50	3.75	1.00	1.02	1.00	0.97	0.96	0.95	1.28	1.33	1.29	1.27	1.29	1.31
Australia	3.28	3.60	4.20	5.00	5.50	5.20	1.03	1.02	0.98	0.95	0.94	0.92	1.24	1.28	1.32	1.38	1.43	1.49
New Zealand	3.61	3.85	4.50	5.20	5.80	5.50	0.82	0.81	0.76	0.71	0.69	0.68	1.57	1.61	1.71	1.84	1.94	2.03
Germany	1.57	1.54	1.55	1.80	2.00	2.50												
France	2.54	2.32	2.48	2.70	2.80	3.00												
Italy	5.49	5.18	5.18	5.30	5.00	5.00												
Spain	5.88	5.50	5.30	5.55	5.00	5.00												
Netherlands	1.95	1.85	1.99	2.05	2.20	2.70												
Belgium	2.43	2.44	2.68	2.80	3.00	3.20												
Denmark	1.51	1.58	1.60	1.95	2.25	2.75	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.15	2.31	2.35	2.55	2.75	3.25	5.81	5.75	5.63	5.52	5.38	5.24	7.45	7.47	7.30	7.24	7.22	7.21
Sweden	1.59	1.87	1.75	2.00	2.25	2.75	6.73	6.39	6.45	6.40	6.25	6.11	8.63	8.31	8.35	8.40	8.40	8.40
Switzerland	0.45	0.68	0.66	0.80	0.94	1.28	0.94	0.96	0.99	0.99	0.97	0.95	1.20	1.25	1.28	1.30	1.30	1.30
United Kingdom	1.85	2.30	2.45	3.00	3.25	3.75	1.59	1.46	1.48	1.56	1.63	1.70	0.81	0.89	0.88	0.84	0.83	0.81
Emerging Markets																		
China	**3.33**	**3.58**	**3.83**	**4.08**	**4.21**	**4.33**	**6.31**	**6.15**	**6.07**	**6.05**	**6.05**	**6.06**	**8.11**	**7.99**	**7.87**	**7.94**	**8.13**	**8.32**
Taiwan	1.21	1.31	1.43	1.50	1.70	2.00	29.57	29.46	28.57	28.20	28.20	28.20	38.03	38.28	37.01	37.02	37.89	38.75
India	8.25	8.25	8.25	8.25	8.25	8.25	53.38	55.19	55.73	55.26	54.69	54.13	68.65	71.72	72.19	72.55	73.49	74.38
Indonesia	5.90	5.53	5.93	6.30	6.60	6.80	9361	9818	9772	9638	9584	9531	12038	12758	12658	12653	12877	13097
Korea	3.24	2.90	3.83	4.50	5.00	5.15	1127	1081	1025	994	992	989	1449	1404	1328	1305	1332	1360
Czech Republic	2.75	2.16	2.66	3.07	3.46	3.46	19.5	19.9	19.5	18.5	17.7	16.9	25.1	25.9	25.2	24.3	23.8	23.3
Hungary	7.91	6.49	6.20	5.89	5.60	5.65	225	234	227	221	216	211	289	304	295	290	290	290
Poland	5.05	4.19	4.80	5.09	5.17	5.11	3.25	3.23	3.14	2.96	2.87	2.78	4.18	4.20	4.06	3.89	3.85	3.82
Romania	NA	NA	NA	NA	NA	NA	3.46	3.25	3.23	3.16	3.06	2.97	4.45	4.23	4.18	4.15	4.11	4.08
Russia	NA	NA	NA	NA	NA	NA	31.1	31.3	32.5	32.9	32.5	32.0	40.0	40.7	42.1	43.1	43.6	44.0
Turkey	NA	NA	NA	NA	NA	NA	1.80	1.85	1.89	1.90	1.90	1.91	2.32	2.40	2.45	2.50	2.56	2.62
Nigeria	NA	NA	NA	NA	NA	NA	159	161	164	168	171	175	204	209	212	221	230	240
South Africa	7.15	6.87	8.00	9.15	9.20	9.25	8.21	9.39	9.50	9.56	9.71	9.86	10.56	12.20	12.31	12.55	13.05	13.55
Argentina	NA	NA	NA	NA	NA	NA	4.54	5.46	6.74	8.72	13.45	18.82	5.84	7.09	8.73	11.45	18.07	25.86
Brazil	9.31	8.73	10.75	11.13	10.00	9.50	1.95	1.97	2.04	2.12	2.16	2.20	2.51	2.56	2.65	2.78	2.90	3.02
Mexico	5.70	5.63	6.25	6.63	7.06	7.95	13.2	12.2	12.2	12.3	12.3	12.3	16.9	15.8	15.8	16.1	16.5	16.9
Venezuela	11.26	10.91	10.66	15.50	15.50	15.50	4.29	6.13	6.30	9.75	10.50	12.71	5.52	7.97	8.16	12.80	14.11	17.46

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

Figure 13. Short Rates (End of Period), as of 20 March 2013 (Percent)

	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14
United States	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**	**0.10**
Euro Area	**0.75**	**0.50**	**0.50**	**0.25**	**0.25**	**0.25**	**0.25**
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.50
Australia	3.00	2.75	2.75	2.75	2.75	3.00	3.50
New Zealand	2.50	2.50	2.50	2.50	2.75	3.00	3.25
Denmark	0.30	0.20	0.20	0.10	0.20	0.30	0.30
Norway	1.50	1.50	1.50	1.50	1.50	1.75	1.75
Sweden	1.00	1.00	0.75	0.75	0.75	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	0.50	0.50	0.50	0.50	0.50
China	**3.00**	**3.00**	**3.00**	**3.25**	**3.50**	**3.50**	**3.50**

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 14. 10-Year Yield Forecasts (Period Average), as of 20 March 2013 (Percent)

	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14
United States	**1.96**	**2.05**	**2.30**	**2.60**	**2.85**	**3.00**	**3.20**
Japan	**0.62**	**0.70**	**0.70**	**0.90**	**1.00**	**0.90**	**0.90**
Euro area (Germany)	**1.36**	**1.40**	**1.65**	**1.55**	**1.35**	**1.55**	**1.55**
Canada	1.81	2.10	2.35	2.60	2.70	2.90	2.90
Australia	3.55	3.50	3.65	3.80	3.90	4.00	4.25
New Zealand	3.63	3.75	3.90	4.05	4.15	4.30	4.50
Denmark	1.53	1.45	1.65	1.55	1.40	1.65	1.65
Norway	2.14	2.15	2.40	2.25	2.05	2.30	2.30
Sweden	1.95	1.75	1.95	1.85	1.60	1.80	1.75
Switzerland	0.68	0.62	0.76	0.62	0.49	0.62	0.62
United Kingdom	1.85	2.10	2.40	2.40	2.30	2.45	2.45

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 15. 10-Year Yield Spreads (Period Average), as of 20 March 2013

	Spread vs. US$						Spread vs. Germany					
	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**61**	**66**	**66**	**107**	**152**	**147**
Japan	**-127**	**-136**	**-141**	**-162**	**-197**	**-212**	**-66**	**-70**	**-75**	**-55**	**-45**	**-65**
Euro Area	**-61**	**-66**	**-66**	**-107**	**-152**	**-147**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	-15	5	5	0	-15	-10	46	71	71	107	137	137
Australia	161	147	137	122	107	102	222	213	203	229	259	249
New Zealand	169	172	162	147	132	132	230	239	229	254	284	280
France	6	4	14	-7	-52	-47	66	70	80	100	100	100
Italy	270	354	284	293	248	253	330	420	350	400	400	400
Spain	303	384	314	293	248	253	363	450	380	400	400	400
Netherlands	-13	-41	-31	-67	-102	-97	47	25	35	40	50	50
Belgium	25	14	14	13	-32	-27	85	80	80	120	120	120
Austria	-28	-36	-31	-67	-102	-97	32	30	35	40	50	50
Finland	-38	-51	-46	-87	-112	-107	22	15	20	20	40	40
Ireland	217	184	184	143	173	178	277	250	250	250	325	325
Denmark	-43	-61	-66	-107	-147	-137	17	5	0	0	5	10
Norway	18	9	9	-37	-82	-72	78	75	75	70	70	75
Sweden	-1	-31	-36	-77	-127	-122	59	35.0	30.0	30.0	25.0	25.0
Switzerland	-128	-144	-155	-200	-238	-240	-68	-78	-89	-93	-86	-93
United Kingdom	-11	5	10	-20	-56	-56	49	71	76	86	96	92

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 16. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as of 20 March 2013

Country	Current Rate (%)	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Total Cumulative Rate Moves Expected
Brazil	7.25	50	75	25	0	0	150
Thailand	2.75	25	50	25	0	0	100
Turkey	5.50	-25	-25	0	75	75	100
Philippines	3.50	0	0	0	25	50	75
Israel	1.75	-25	0	50	0	50	75
Colombia	3.75	-25	0	25	50	25	75
Indonesia	4.00	25	0	0	25	0	50
China	3.00	0	0	25	25	0	50
Korea	2.75	-25	0	25	25	25	50
Chile	5.00	-50	0	0	75	0	25
Mexico	4.00	0	0	0	0	0	0
Czech	0.05	0	0	0	0	0	0
Poland	3.25	0	0	0	0	0	0
South Africa	5.00	0	0	0	0	0	0
India	7.50	-25	0	0	0	0	-25
Russia	8.25	0	-25	-25	0	-25	-75
Hungary	5.25	-75	0	0	0	0	-75

Source: Citi Research

Figure 17. Foreign Exchange Forecasts (End of Period), as of 20 March 2013

	vs. USD						vs. EUR					
	Current	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Current	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.31**	**1.30**	**1.30**	**1.29**	**1.29**	**1.29**
Japan	**96**	**99**	**98**	**97**	**95**	**94**	**125**	**129**	**127**	**125**	**123**	**122**
Euro Area	**1.31**	**1.30**	**1.30**	**1.29**	**1.29**	**1.29**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	1.02	1.02	1.03	1.03	1.02	1.00	1.33	1.33	1.33	1.33	1.31	1.30
Australia	1.04	1.03	1.01	1.00	0.99	0.98	1.26	1.27	1.28	1.29	1.30	1.32
New Zealand	0.82	0.81	0.81	0.80	0.78	0.77	1.59	1.60	1.61	1.62	1.65	1.69
Norway	5.78	5.77	5.73	5.69	5.67	5.65	7.55	7.52	7.43	7.35	7.33	7.31
Sweden	6.40	6.37	6.40	6.44	6.44	6.45	8.36	8.30	8.30	8.30	8.32	8.34
Switzerland	0.94	0.96	0.96	0.97	0.98	0.98	1.23	1.25	1.25	1.25	1.26	1.27
United Kingdom	1.51	1.48	1.45	1.42	1.44	1.47	0.86	0.88	0.90	0.91	0.90	0.88
China	**6.22**	**6.16**	**6.13**	**6.10**	**6.09**	**6.08**	**8.1**	**8.0**	**7.9**	**7.9**	**7.9**	**7.9**
India	54.0	55.0	55.5	56.0	55.9	55.8	70.5	71.7	72.0	72.2	72.2	72.2
Korea	1111	1088	1072	1058	1045	1032	1450	1418	1390	1365	1350	1336
Poland	3.18	3.21	3.25	3.28	3.23	3.17	4.15	4.18	4.22	4.24	4.17	4.10
Russia	30.7	31.1	31.5	31.9	32.1	32.4	40.0	40.5	40.8	41.1	41.5	41.9
South Africa	9.19	9.36	9.44	9.50	9.50	9.50	12.00	12.21	12.23	12.26	12.28	12.30
Turkey	1.81	1.84	1.86	1.88	1.88	1.89	2.36	2.40	2.41	2.43	2.44	2.44
Brazil	1.97	1.96	1.97	1.98	2.01	2.03	2.57	2.55	2.55	2.56	2.59	2.63
Mexico	12.4	12.2	12.1	12.1	12.1	12.2	16.2	15.9	15.7	15.6	15.7	15.8

Source: Citi Research

Figure 18. Foreign Exchange Forecasts (End of Period), as of 20 March 2013

	vs. JPY					
	Current	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14
United States	**96**	**99**	**98**	**97**	**95**	**94**
Japan	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Euro Area	**125**	**129**	**127**	**125**	**123**	**122**
Canada	94	97	95	94	94	94
Australia	100	102	99	97	94	92
New Zealand	79.0	80.6	79.0	77.1	74.5	71.9
Norway	16.6	17.2	17.1	17.0	16.8	16.6
Sweden	15.0	15.6	15.3	15.0	14.8	14.6
Switzerland	102	103	102	100	98	96
United Kingdom	146	146	142	138	138	138
China	**15**	**16**	**16**	**16**	**16**	**15**
India	1.78	1.80	1.76	1.73	1.71	1.68
Korea	11.56	10.98	10.95	10.93	10.96	10.98
Poland	30.2	30.9	30.1	29.5	29.6	29.7
Russia	3.1	3.2	3.1	3.0	3.0	2.9
South Africa	10.5	10.6	10.4	10.2	10.0	9.9
Turkey	53.1	53.9	52.6	51.4	50.6	49.8
Brazil	48.7	50.6	49.7	48.8	47.5	46.2
Mexico	7.7	8.1	8.1	8.0	7.9	7.7

Source: Citi Research

Country Commentary

United States

Robert V. DiClemente
(1-212) 816-7942
robert.diclemente@citi.com

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

Steven Wieting
(1-212) 816-7148
steven.wieting@citi.com

We continue to expect that economic growth this year will be near 2½% (4Q/4Q) and pick up further in 2014. Support for expansion has improved with widespread hiring, more effective monetary accommodation as reflected in buoyant financial markets, and the rippling effects of reviving housing. Short-term volatility due in part to weather distortions has provided an extra lift to Q1 GDP and consumers have been somewhat initially resilient in the face of higher tax rates. But fiscal drag will likely check upside momentum now that the full budget sequester is going into effect. Slow implementation is expected to delay further the larger fiscal drag than we assumed earlier, while the recovery's underlying momentum also may be buffering the impact of deficit reduction. The base case does not anticipate major reforms.

The Federal Reserve's aggressive forward guidance and open-ended bond-buying have yielded the longest stretch of accommodative financial conditions since the late-1990s. The drag from fiscal restraint and policymakers' high bar for satisfactory job growth will likely sustain QE at an elevated pace through the first half. Beyond that, officials may begin to taper the pace of QE in the second half of this year. High unemployment and low inflation suggest no start to exit strategies through 2014.

Slower global growth and seasonal biases eased inflation in late 2012, but core CPI has firmed a little in the first couple of reports this year. We expect inflation to stabilize close to its 2% target this year with modest cyclical pressures thereafter as global growth picks up somewhat and wage costs rise with sustained improvement in job markets.

Figure 19. United States — Economic Forecasts, 2012-2014F

					2012	2013				2014		
		2012E	2013F	2014F	4QE	1QF	2QF	3QF	4QF	1QF	2QF	3QF
GDP	SAAR				0.7%	2.9%	1.2%	2.6%	2.9%	2.9%	3.0%	3.2%
	YoY	2.3%	2.1%	2.8%	1.8	2.0	2.0	1.8	2.4	2.4	2.8	3.0
Domestic Demand	SAAR				1.7	1.1	1.5	2.7	2.9	3.1	3.4	3.6
	YoY	2.0	1.7	3.1	1.9	1.6	1.5	1.7	2.0	2.5	3.0	3.2
Consumption	SAAR				2.0	2.0	1.3	2.6	2.9	3.1	3.3	3.5
	YoY	1.9	1.9	3.0	1.9	1.8	1.7	2.0	2.2	2.5	3.0	3.2
Business Investment	SAAR				12.4	2.3	5.6	6.3	7.3	7.1	7.0	7.2
	YoY	7.9	5.1	7.0	5.3	4.0	4.5	6.6	5.4	6.6	6.9	7.1
Housing Investment	SAAR				18.0	7.6	14.5	17.7	18.1	14.5	20.7	19.6
	YoY	12.1	13.5	17.4	15.0	11.8	13.3	14.4	14.4	16.2	17.7	18.2
Government	SAAR				-6.8	-3.3	-1.3	-1.2	-1.2	-1.0	-0.8	-0.8
	YoY	-1.7	-2.2	-1.0	-1.7	-1.8	-2.0	-3.2	-1.8	-1.2	-1.1	-1.0
Exports	SAAR				-2.9	3.0	3.6	3.9	4.2	4.9	4.4	5.0
	YoY	3.4	2.2	4.5	2.1	1.8	1.4	1.9	3.7	4.1	4.3	4.6
Imports	SAAR				-4.2	3.5	3.1	4.0	4.4	5.3	5.7	5.7
	YoY	2.4	1.5	5.0	0.2	0.3	-0.4	1.5	3.7	4.2	4.8	5.5
PCE Deflator	YoY	1.8	1.7	2.1	1.6	1.3	1.7	1.9	2.0	2.1	2.1	2.1
Core PCE Deflator	YoY	1.7	1.4	1.9	1.5	1.3	1.2	1.4	1.6	1.8	1.9	2.0
Unemployment Rate	%	8.1	7.6	7.1	7.8	7.7	7.7	7.5	7.4	7.3	7.2	7.1
Federal Gov't Balance (Fiscal Year)	$Bn	-1089	-840	-615								
	% of GDP	-7.0	-5.2	-3.5								
General Gov't Balance (Cal Year)	% of GDP	-8.3	-7.0	-4.9								
Federal Debt	% of GDP	72	75	76								
General Gov't Debt	% of GDP	106	109	111								
Current Account	US$bn	-471	-437	-465	-446	-441	-430	-438	-439	-446	-459	-471
	% of GDP	-3.0	-2.7	-3.0	-2.8	-2.8	-2.7	-2.7	-2.7	-2.7	-2.7	-2.8
S&P 500 Profits (US$ Per Share)	YoY	5.7	6.4	5.0	5.7	5.0	6.3	6.0	8.2	5.7	5.2	5.1

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

Japan

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

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

The new BoJ leadership took office on March 20. Governor Kuroda stated at the recent parliamentary hearings that monetary easing under the previous leadership is unlikely to achieve a 2% inflation target in the near future and that bolder steps should be taken with a sense of urgency. We expect the Bank will decide to consolidate the Rinban — JGB purchases conducted in terms of money market operations — and those under the asset purchase program and to purchase a much larger amount of longer-dated JGBs at a policy meeting on April 3/4 or April 26. There is also speculation that the BoJ may hold a special meeting outside the normal schedule.

However, we are skeptical that a 2% inflation target will be achieved in the foreseeable future. First, the roughly 20% depreciation so far of the yen against the US dollar is expected to push up the headline CPI by less than 1% and the CPI excluding food and energy by 0.3% at most. Second, any direct impact of the yen's depreciation on inflation should dissipate over time. Lastly, a likely sharp slowdown in the economy, driven by large fiscal drag mostly stemming from the consumption tax hike slated in April 2014 will exert renewed downward pressures on prices next year. Meanwhile, unit labor costs, a most important key for sustained inflation, are likely to remain quite sluggish in years to come.

Economic activity is likely to accelerate sharply in the immediate future, thanks to a pickup in the global economy, positive impact from the yen depreciation, fiscal stimulus from the latest supplementary budget and frontloading in household spending ahead of the consumption tax hike in 2014. We expect GDP growth in the next four quarters will average 3.6% annualized. However, the economy will probably shrink in an outright manner in the second quarter of 2014 because of the 3%-point consumption tax rate hike. In that case, the second consumption tax hike scheduled in October 2015 may become difficult to implement politically and this might strengthen concerns over fiscal sustainability.

Figure 20. Japan — Economic Forecasts, 2012-14F

					2012	2013F				2014F		
		2012	2013F	2014F	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Real GDP	YoY	2.0%	1.5%	1.3%	0.4%	-0.5%	0.6%	2.6%	3.2%	3.6%	1.1%	0.4%
	SAAR				0.2	2.5	3.5	4.3	2.6	3.9	-6.2	1.5
Domestic Demand	YoY	2.8	1.7	0.2	1.3	0.4	1.2	2.4	2.8	2.9	-0.1	-0.9
	SAAR				0.8	1.9	3.2	3.6	2.4	2.4	-8.2	0.3
Private Consumption	YoY	2.4	1.1	0.4	1.2	0.5	0.7	1.6	1.7	2.6	-0.1	-0.3
	SAAR				2.0	2.0	0.9	1.5	2.2	5.7	-9.1	0.7
Business Investment	YoY	2.0	0.4	4.2	-7.1	-4.0	-2.7	2.7	5.9	6.7	4.9	3.2
	SAAR				-5.7	3.1	5.4	8.6	6.6	6.3	-1.8	1.8
Housing Investment	YoY	2.9	9.6	-7.0	5.8	10.1	10.1	11.0	7.4	2.9	-7.2	-11.3
Public Investment	YoY	12.5	7.8	-11.7	20.2	6.5	8.0	9.0	7.5	2.0	-13.0	-17.5
Exports	YoY	-0.2	-0.8	5.4	-5.5	-7.0	-5.2	2.0	8.0	7.2	6.0	4.8
	SAAR				-14.0	7.2	8.2	8.6	8.1	4.0	3.4	3.6
Imports	YoY	5.3	1.3	-1.7	0.9	-0.3	-0.5	1.0	5.2	2.7	-1.4	-3.6
	SAAR				-9.0	3.6	5.9	4.4	7.2	-6.2	-10.1	-4.6
CPI	YoY	0.0	0.0	1.8	-0.2	-0.6	-0.1	0.4	0.4	0.3	2.3	2.3
Core CPI	YoY	-0.1	0.1	1.8	-0.1	-0.3	0.0	0.3	0.4	0.3	2.3	2.3
Nominal GDP	YoY	1.1	0.9	1.9	-0.2	-1.2	0.0	2.1	2.7	3.2	2.0	1.4
Current Account	¥ tn	4.7	1.5	7.4	3.0	1.3	0.9	1.2	2.4	4.4	7.5	9.0
	% of GDP	1.0	0.3	1.5	0.6	0.3	0.2	0.2	0.5	0.9	1.5	1.8
Unemployment Rate	%	4.3	4.1	4.0	4.2	4.2	4.1	4.0	3.9	4.0	4.0	4.1
Industrial Production	YoY	-0.9	1.4	2.2	-5.9	-4.7	-1.3	4.2	7.8	5.5	2.1	1.2
Corporate Profits (Fiscal Year)	YoY	5.0	30.0	-5.0								
General Govt. Balance (Fiscal Year)	% of GDP	-10.7	-9.8	-7.0								
General Govt Debt	% of GDP	237	244	245								

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

Jürgen Michels
(44-20) 7986-3294
jürgen.michels@citi.com

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

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

Euro Area

We leave our GDP growth forecast for 2013 and 2014 roughly unchanged. However, with weaker than expected January activity data, it looks more likely that GDP contracted again in 1Q instead of the earlier-expected stabilization. With mixed, and clearly below-par, sentiment indicator readings we expect GDP growth around zero in the remainder of the year. In an environment of poor economic growth, record high unemployment and moderating wage growth, inflationary pressure continues to ease and we expect inflation to be below the ECB's medium-term target of "*below, but close to 2%*" in 2013 (1.7% YoY) and 2014 (1.5%).

After the rejection of the proposed deposit tax, the outlook for Cyprus is highly uncertain. While there is a chance of last minute agreements on a package, maybe involving Russia, risks of the country leaving the EMU have increased, in our view. Separately, the EU Summit made clear that countries that are likely to miss their fiscal targets in 2013 because of adverse economic conditions, will get more time to meet the 3%-of-GDP deficit targets. While this suggests that there will be no additional fiscal tightening in 2013, additional austerity measures in these countries are likely for 2014 and beyond, and probably will dampen growth. The decision also suggests that debt-ratios are likely to increase further, which probably will not be welcomed by investors and rating agencies.

In case of Cyprus leaving EMU, and/or a renewed deposit flight from the periphery, the ECB probably will have to take additional measures. As we see high hurdles for another round of 3Y LTROs – because banks continue to repay the existing ones so far and the LTROs might be seen as a way to circumvent the condition-bound OMT programme – an easing of the collateral rules looks more likely to us. In the weak economic environment and falling inflationary pressure, we continue to expect the ECB to cut the refi rate by 25bp to 0.5% in 2Q, but unlikely in April. We still expect a further refi rate cut in the remainder of the year to 0.25%. While a negative deposit rate at that stage is still possible, despite increasing reluctance of ECB officials, we no longer expect a negative deposit rate in our base case scenario.

Figure 21. Euro Area — Economic Forecasts, 2012-14F

					2012F	2013F				2014F		
		2012F	2013F	2014F	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	-0.5%	-0.5%	-0.3%	-0.9%	-0.9%	-0.6%	-0.6%	-0.1%	-0.4%	-0.4%	-0.4%
	SAAR				-2.3	-0.1	0.3	0.0	-0.7	-1.1	0.1	0.3
Final Domestic Demand	YoY	-1.5	-1.0	-0.3	-1.7	-1.5	-0.9	-0.9	-0.6	-0.6	-0.5	-0.3
Private Consumption	YoY	-1.2	-0.6	0.2	-1.2	-1.1	-0.6	-0.5	0.0	0.0	0.1	0.3
Government Consumption	YoY	-0.1	-0.9	-0.6	-0.2	-0.5	-0.6	-1.1	-1.5	-1.3	-1.0	-0.3
Fixed Investment	YoY	-3.9	-2.4	-1.6	-4.9	-3.9	-2.4	-1.9	-1.4	-1.9	-1.8	-2.0
— Business Equipment	YoY	-4.5	-2.6	-2.2	-6.3	-4.6	-2.9	-1.7	-1.3	-2.2	-2.2	-2.9
— Construction	YoY	-3.4	-2.4	-1.1	-3.8	-3.4	-2.1	-2.3	-1.7	-1.5	-1.5	-1.0
Stocks (Contrib. to Y/Y GDP Growth)		-0.4	-0.2	0.0	-0.3	-0.3	-0.4	-0.1	-0.1	-0.1	0.0	0.0
Exports	YoY	2.9	2.1	0.9	2.2	2.6	1.9	1.6	2.5	1.1	0.6	0.5
Imports	YoY	-0.9	0.3	0.3	-0.6	0.1	-0.1	0.1	0.8	0.0	-0.1	0.2
CPI	YoY	2.5	1.7	1.5	2.3	1.8	1.7	1.8	1.6	1.7	1.6	1.4
Core CPI	YoY	1.5	1.1	1.2	1.5	1.2	1.0	1.3	1.1	1.3	1.3	1.1
CPI Ex Energy and Food	YoY	1.8	1.4	1.3	1.6	1.4	1.4	1.5	1.4	1.4	1.4	1.2
Unemployment Rate	YoY	11.4	12.1	12.4	11.8	12.0	12.1	12.2	12.2	12.3	12.4	12.4
Current Account Balance	EUR bn	116.1	249.6	240.1								
	% of GDP	1.2	2.6	2.5								
General Government Balance	EUR bn	-322.9	-264.2	-231.4								
	% of GDP	-3.4	-2.7	-2.4								
Primary Balance	% of GDP	-0.3	0.4	0.7								
General Government Debt	EUR bn	8,737.3	9,123.4	9,133.4								
	% of GDP	92.1	94.8	93.5								
Gross Operating Surplus	YoY	-0.1	0.0	0.2								

Germany

Jürgen Michels
(44-20) 7986-3294
juergen.michels@citi.com

We leave our economic forecasts roughly unchanged, even though soft January data and poor March weather have led us to a lower forecast for 1Q. However, the broad-based ongoing improvement in sentiment indicators suggests a recovery in coming months. In addition to a positive contribution from exports, we also expect a boost from consumption, which is likely to benefit from the combination of modest employment gains and solid wage increases. We suspect that the new eurosceptic party "Alternative for Germany" is unlikely to get many votes in the September 22 General Election. Even so, it probably will lead to a tougher tone from the current government coalition in euro area related topics. We expect that Angela Merkel will stay as Chancellor, but probably with a different coalition partner.

France

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

The French economy is struggling under the weight of a sizeable fiscal adjustment, low competitiveness and weak business confidence. With unemployment on a steady uptrend, the popularity of the government has been deteriorating rapidly. In March, both the President and Prime Minister's confidence ratings fell to new lows of around 32%, with respective drops of 7 points and 5 points. While we expect that the government will be successful in its campaign to obtain an extra year to 2014 to bring the budget deficit under the 3% of GDP EDP threshold, the quid pro quo will likely be more efforts in terms of structural reforms, ranging from pensions to the labour market. Detailed expenditure cuts (including family benefits) will also need to form part of the new Stability and Convergence Programme to be submitted to the EU Commission in late April. We are keeping our forecasts unchanged in March, expecting GDP growth to remain close to 0.0% over the period 2013-14.

Italy

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

Recent surveys and data suggest economic activity remains weak, after perhaps a less negative QQ reading in Q1 13. Fiscal drag will be smaller in 2013 than in 2012, but even without a government in place, current policies imply a fiscal tightening of about 1½% of GDP, hence remaining a large drag on growth. Fiscal austerity might be relaxed somewhat if a centre-left minority government is elected. Political instability, together with a public debt rising close to 135% of GDP in 2014, are likely to heighten market pressure on Italy to request external financial assistance (probably an ESM precautionary credit line and OMT activation) some time in 2013. This may possibly be followed eventually by some form of debt restructuring (via maturity extensions and coupon reductions).

Figure 22. Germany, France and Italy — Economic Forecasts, 2012-14F

		Germany			France			Italy		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	0.9%	0.8%	0.8%	0.0%	-0.2%	0.2%	-2.4%	-1.6%	-1.4%
Final Domestic Demand	YoY	0.3	0.9	1.2	0.3	0.0	0.2	-4.7	-2.6	-2.0
Private Consumption	YoY	0.6	1.3	1.0	0.0	0.1	0.1	-4.3	-2.8	-0.9
Fixed Investment	YoY	-2.0	-0.8	2.1	0.0	-1.1	0.4	-8.0	-4.1	-7.5
Exports	YoY	4.3	2.7	1.9	2.3	0.8	0.6	2.2	1.5	-2.3
Imports	YoY	2.2	3.0	2.8	-0.3	0.0	0.6	-7.8	-3.4	-4.2
CPI	YoY	2.0	1.6	2.3	2.2	1.0	1.7	3.3	2.3	1.4
Unemployment Rate	%	5.5	5.3	5.3	9.9	10.9	11.1	10.7	11.9	12.4
Current Account	€bn	185.4	184.4	156.4	-49.3	-35.3	-19.7	-10.0	-4.8	-2.7
	% of GDP	7.0	6.8	5.7	-2.4	-1.7	-0.9	-0.6	-0.3	-0.2
General Govt. Balance	€bn	2.2	-5.1	-6.5	-91.7	-74.7	-63.9	-47.4	-47.0	-49.0
	% of GDP	0.1	-0.2	-0.2	-4.5	-3.6	-3.0	-3.0	-3.0	-3.2
Primary Balance	% of GDP	2.4	1.9	1.7	-2.4	-1.5	-0.7	2.4	2.5	2.5
General Govt. Debt	% of GDP	82.4	81.7	80.6	91.4	95.7	97.3	127.0	131.1	135.4
Gross Trading Profits	YoY	-1.9	-3.0	-2.4	0.0	2.0	4.0	NA	NA	NA

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

Spain

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

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

The drop in domestic demand in Q4 12 (-2% QQ) is likely to become less negative in Q1 13, but the recession in 2013 will probably remain severe reflecting a still large fiscal drag, tight financing conditions, ongoing private deleveraging and housing adjustment. Public debt (at 84.1% of GDP in 2012, 14.9pp higher than in 2011) could still be lifted by additional bank recapitalisation needs due to rising NPLs and still falling house prices. We still expect that Spain will enter a precautionary ESM programme at some point this year and that some form of debt restructuring may eventually be likely.

Greece

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

Although 2012 official fiscal data were better than expected and debt relief measures worth 71pp of GDP were adopted in 2012, Greece's fiscal position remains most likely unsustainable, in our view, with the debt ratio likely to be close to 180% by end-2013. Significant liquidity constraints (possibly made worse by developments in Cyprus), bank deleveraging and fiscal austerity are all unlikely to diminish in 2013, implying a GDP forecast similar to 2012 results. Only a major write-off of the official loans would make the debt burden sustainable again, in our view. As this move remains unlikely in our view, we still see some high probability of Greece leaving the euro area – for forecasting purposes we assume in 2014.

Ireland

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

Ireland's economy remains set for modest export-led growth this year and in 2014. Ireland's fiscal position is still weak, but prospects that Ireland will be able to return to fiscal sustainability have been improved by the rise in GDP in 2012, as well as the willingness of European creditors to concede restructuring on the promissory notes. We assume that similar flexibility will be shown to restructure other debt held in official hands and, if necessary, the bank recapitalisation costs.

Portugal

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

Recent growth numbers have been extremely weak: in Q4 12 domestic demand was down by 2.5% QQ, unemployment overshot projections to 16.9% and tax revenues remain very weak. The government has negotiated an extra year to achieve the deficit targets and will also likely get a maturity lengthening of its bailout loans. However, persistently weak growth and risks of new contingent liabilities being recorded in the government balance sheet still leave concerns about the sustainability of the public debt. With about half of the debt in official hands, we think some combination of further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may eventually be required to restore sustainability.

Figure 23. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2012-14F

		Spain			Greece			Ireland			Portugal		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-1.4%	-2.2%	-2.1%	-6.4%	-6.0%	-11.2%	0.4%	0.7%	1.9%	-3.2%	-3.7%	-2.8%
Final Domestic Demand	YoY	-4.0	-5.3	-3.8	-9.7	-7.0	-11.7	-1.6	-0.9	-1.3	-6.9	-5.2	-2.8
Private Consumption	YoY	-2.2	-4.0	-1.4	-9.1	-6.7	-13.1	-1.2	0.8	-0.1	-5.6	-4.6	-1.1
Fixed Investment	YoY	-9.1	-7.5	-7.7	-19.0	-12.8	-21.1	0.0	-2.0	-2.9	-14.5	-9.0	-10.4
Exports	YoY	3.0	4.7	-1.5	-2.0	-1.5	-16.1	2.8	2.8	4.1	3.3	0.5	-3.2
Imports	YoY	-5.0	-5.8	-6.7	-9.3	-5.4	-17.5	0.2	1.2	1.9	-6.9	-3.2	-3.9
CPI	YoY	2.4	1.8	0.7	1.0	0.7	17.5	2.7	1.3	1.4	2.8	0.3	0.5
Unemployment Rate	%	25.0	27.1	28.3	24.1	28.9	34.3	14.7	13.9	13.7	15.7	17.9	19.9
Current Account	€bn	-8.3	23.7	37.8	-8.4	-5.9	4.1	7.4	9.7	11.7	-5.8	-0.5	2.6
	% of GDP	-0.8	2.3	3.7	-4.3	-3.3	2.1	4.5	5.8	6.7	-3.5	-0.3	1.7
General Govt. Balance	€bn	-107.5	-66.3	-60.6	-14.3	-11.1	-1.0	-12.9	-12.0	-7.2	-9.9	-9.1	-9.3
	% of GDP	-10.2	-6.4	-5.9	-7.4	-5.7	-1.3	-7.9	-7.1	-4.2	-6.0	-5.7	-6.1
Primary Balance	% of GDP	-7.2	-2.6	-1.6	-2.0	-2.3	-2.1	-4.0	-1.5	0.8	-0.8	-0.5	0.9
General Govt. Debt	% of GDP	84.1	94.6	104.9	159.0	179.7	401.7	117.0	120.2	118.4	121.9	135.2	146.9

F Citi forecast. YoY Year-to-year growth rate. For Ireland we show the GDP deflator rather than the CPI, for Spain fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€11.6bn). Sources: ISTAT, INE, Haver Analytics, Eurostat and Citi Research

Netherlands

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

Dutch PM Mark Rutte announced in early March that the 3%-of-GDP 2013 budget deficit target would not be met but that it would be necessary to do so in 2014. The strategy adopted is one of 'damage limitation' given the triple-dip recession. A few days later, the government duly announced 2014 budget savings worth €4.3bn that the CPB estimates would likely subtract 0.7pp from its 1% 2014 GDP forecast. If implemented rapidly and on a sufficiently large scale, the news about pension funds preparing to help finance banks' mortgage portfolios could ease the housing market slump, pointing to some upside risks to our 0.0% 2014 GDP baseline.

Belgium

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

The 4Q GDP splits released in March confirmed a modest contraction in domestic demand, for the third successive quarter, making Belgium a candidate for the 'triple dip' recession club. The debate about additional budget savings for 2014 will be crucial during the next few weeks, as Belgium is falling short of the recommended minimal average annual effort of 0.75pp under the EDP. Central bank governor Luc Coene has reminded the government that there is still "a lot more work to do" on budgetary consolidation. The modest recovery in sequential GDP we see in 2Q and 3Q will probably not be enough to lift annual GDP growth into positive territory.

Slovakia

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

Although the recent downward revision shows milder GDP dynamics and milder growth in industrial production, we keep our forecast of a further deceleration of GDP growth to 0.7%YoY in 2013 from 2% in 2012. Central government budget dynamics has actually disappointed this year as it has improved only slightly in the first two months of 2013, and the deficit is even somewhat wider compared to a year ago. There has been no issuance of bonds after the €1.75bn the first 10Y bond in late February this year that kept the total year-to-date bond issuance at €4.2bn compared to the ARDAL plan for total issuance of GBR at €8.3bn in 2013.

Slovenia

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

The emerging government, led by PM-designate Alenka Bratusek (PS) has a majority in the National Assembly and also solid support among citizens according to local polls published by Delo. This is likely to be supportive for Slovenia, given the likely continued progress on finding solutions for the banking sector, as well as government plans to focus on insolvency legislation and tightening the conditions for calling a referendum. However, the continuing recession (owing to fiscal consolidation, credit crunch and weak foreign demand) is likely to be a source of dispute between the left-wing and right-wing coalition parties. We slightly cut our 2013 GDP forecast due to a larger drop in domestic demand in 4Q12.

Figure 24. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2012-2014F

		Netherlands			Belgium			Slovakia			Slovenia		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-0.9%	-1.0%	0.0%	-0.2%	-0.1%	0.3%	2.0%	0.7%	1.6%	-2.2%	-1.7%	-0.3%
Final Domestic Demand	YoY	-1.4	-1.4	-0.7	-0.7	0.0	0.6	-1.4	0.2	1.2	-4.1	-4.7	-0.7
Public Consumption	YoY	0.7	-0.6	-0.7	0.1	0.0	0.3	-0.6	-1.4	0.0	-1.6	-2.2	-1.0
Private Consumption	YoY	-1.4	-1.6	-0.4	-0.6	0.3	0.5	-0.6	0.1	0.5	-2.8	-3.3	-0.8
Investment (Ex Stocks)	YoY	-4.7	-2.6	-1.2	-0.5	-0.6	1.4	-3.7	1.5	3.5	-9.1	-6.1	0.0
Exports	YoY	3.1	1.4	1.4	0.4	0.0	1.1	8.6	3.3	2.9	1.3	0.2	0.6
Imports	YoY	2.8	0.9	0.7	-0.1	-0.3	1.4	2.8	1.3	2.4	-3.4	-4.7	0.2
CPI (Average)	YoY	2.8	2.9	1.8	2.8	1.5	2.0	3.6	2.2	2.5	2.6	2.2	2.2
Unemployment Rate	%	6.4	7.5	7.8	7.3	7.7	7.6	13.6	14.8	15.4	8.9	9.4	10.2
Current Account	% of GDP	9.9	9.9	9.0	-0.9	-0.7	-0.8	2.3	3.6	3.3	1.5	1.6	2.5
General Govt Balance	% of GDP	-4.1	-3.8	-3.3	-2.9	-2.6	-2.2	-5.1	-3.2	-2.9	-3.9	-3.3	-2.8
Primary Balance	% of GDP	-2.3	-1.9	-1.2	-0.6	0.0	0.8	-3.6	-1.7	-1.4	-1.8	-1.1	-0.5
General Govt Debt	% of GDP	71.3	75.4	78.1	110.0	115.9	115.8	52.1	53.5	54.4	53.5	58.1	61.0

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

UK

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

Our economic forecasts are little changed from last month, and we continue to expect economic weakness coupled with above-target inflation. Note that this forecast has been completed before the March 20 Budget. Available data so far suggest that the economy remained weak in early 2013, with declines in retail sales, construction output and industrial production in January, and downbeat readings from surveys for January-February. At this stage, we expect that Q1 GDP fell marginally, perhaps by 0.1% QoQ, after the 0.3% QoQ drop in Q4-12, but this estimate for Q1 is still quite uncertain at this stage. But, regardless of whether Q1 GDP is marginally up, flat or marginally down, the broad picture is that the economy continues to underperform. The economy as a whole has considerable spare capacity and underlying inflation pressures are weak: nominal GDP is up 1.3% YoY and the GDP deflator is running at only 1% YoY. However, CPI inflation is likely to remain well above the 2% target and indeed will probably rise to 3% YoY in coming months, because of ongoing increases in prices for demand-insensitive items — notably utilities, petrol, food, tobacco, alcohol and tuition fees — as well as some boost to import prices from the weaker pound.

We expect that the government will continue to emphasise medium-term fiscal consolidation with monetary loosening. We expect further credit easing measures and a looser inflation target framework to allow more monetary easing, via QE and (once Carney is in place) forward rate guidance. The commitment to medium term fiscal consolidation over several years need not however, rule out some deferral of the heavy fiscal tightening planned (before the Budget) for 2013/14 and 2014/15. Monetary policy is likely to loosen further and stay loose for an extended period.

Figure 25. United Kingdom — Economic Forecasts, 2012-2014F

					2012	2013F				2014F		
		2012F	2013F	2014F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	0.2%	0.4%	0.7%	0.3%	0.2%	0.9%	0.0%	0.4%	0.6%	0.4%	0.7%
	SAAR				-1.2	-0.4	1.1	0.2	0.6	0.3	0.7	1.3
Domestic Demand	YoY	1.2	0.0	0.3	1.5	0.5	0.0	-0.3	0.0	0.3	0.3	0.3
(Incl. Inventories)	SAAR				-0.8	-1.9	0.5	0.8	0.6	-0.9	0.5	0.9
Consumption	YoY	1.0	0.9	1.2	1.5	0.9	0.9	0.9	0.9	1.2	1.0	1.2
	SAAR				0.9	-0.3	1.9	1.3	0.8	0.7	1.2	1.9
Investment	YoY	1.4	-3.6	-0.7	1.7	0.1	-4.6	-5.2	-4.4	-3.9	-0.7	0.8
	SAAR				-1.4	-4.1	-10.5	-4.6	2.2	-2.1	2.0	1.1
Exports	YoY	-0.3	0.2	5.7	-2.5	-2.8	1.1	-0.1	2.4	6.1	4.5	5.6
	SAAR				-5.7	-6.8	11.1	2.1	4.1	7.1	4.8	6.6
Imports	YoY	2.0	-0.9	4.3	0.4	-2.4	-1.6	-1.0	1.3	4.9	3.8	4.1
	SAAR				-4.8	-10.4	8.4	4.0	4.1	3.0	4.2	5.1
Unemployment Rate	%	7.9	7.5	7.1	7.8	7.7	7.5	7.5	7.3	7.2	7.2	7.1
CPI Inflation	YoY	2.8	3.1	2.9	2.7	2.9	3.1	3.2	3.2	3.1	2.9	2.8
Merch. Trade	£bn	-106.6	-128.2	-131.0								
	% of GDP	-6.9	-8.3	-8.2								
Current Account	£bn	-55.9	-69.9	-70.9								
	% of GDP	-3.6	-4.5	-4.4								
PSNB	£bn FY	-92.0	-133.3	-130.0								
	% of GDP	-6.0	-8.5	-8.1								
General Govt. Balance	% of GDP	-5.8	-8.4	-8.0								
Government Primary Balance		-2.9	-5.3	-4.7								
Public Debt	% of GDP	90.1	98.2	103.6								
Gross Nonoil Trading Profits	YoY	2.8	-1.8	1.9								

Note: Forecast does not include the Budget measures announced on 20 March 2013. Fiscal deficit shown excluding financial interventions. F Citi forecast. YoY Year-to-year growth rate. Sources: ONS and Citi Research

Switzerland

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

The Swiss economy is likely to continue to outperform within Europe, with positive (albeit modest) growth and little or no inflation. Recent surveys show slightly divergent trends, with a recovery in the PMI but weaker readings for the kof indicator. On balance, we expect that Q1 GDP is up about 0.3% QoQ. CPI inflation is likely to remain slightly negative in 2013-14, reflecting in particular currency-induced weakness in prices of imported goods and services (these have fallen by a total of 7% since mid-11). The SNB is likely to maintain its CHF1.20/€ cap.

Sweden

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

The improvement in sentiment indicators (albeit from very low levels) suggests that the Swedish economy is past the worst. Still, economic recovery is likely to prove slow; exports will stay weak, household deleveraging risks are increasing and ongoing fiscal erosion limits the size of fiscal easing. With well-below trend GDP growth ahead, the government faces the dilemma of either jeopardizing its fiscal policy framework if it loosens policy too much or jeopardizing economic recovery if it stays put. We expect a bit of fiscal policy easing, but not enough to achieve a rapid economic rebound. The outlook for monetary policy is a fairly long period of ultra-low rates.

Denmark

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

We have cut our 2013 GDP forecast by 0.5pp to 0.4% Y/Y, following the surprisingly marked contraction in 4Q (-0.9% Q/Q, -1.0% Y/Y). Recent economic activity data, however, suggest that the Danish economy is expanding again and we expect it to gradually return to the growth track this year. However, the recovery will be weak as households continue to deleverage on the back of the housing bust. The DNB independently hiked its key policy rate by 10bp 0.3% in Feb as intervention did not manage to constrain DKK weakness. In turn, we do not expect DNB to completely shadow near-term ECB action (rate cuts of 25bp in 2Q and 4Q, respectively).

Norway

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

Despite a marked slowdown in 4Q (driven by private goods consumption), the cushion of high oil receipts and recovering private spending in early-2013 should ensure continued Norwegian outperformance versus most of Europe. Although momentum has peaked, mainland GDP should settle at a trend-like pace. Despite trend-like growth, a positive output gap and building financial imbalances, the aim of bringing inflation back to target gained the upper hand at the March MPC meeting. In turn, Norges Bank slashed its conditional interest rate path, now indicating a 50% probability of a 25bp cut in May. Accordingly, we now expect the key policy rate to be on hold until mid-year 2014.

Figure 26. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2012-2014F

		Switzerland			Sweden			Denmark			Norway		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	1.0%	1.1%	1.1%	1.2%	1.0%	1.9%	-0.6%	0.4%	1.8%	3.3%	2.8%	2.8%
Final Domestic Demand	YoY	1.7	1.8	1.3	2.0	1.2	1.5	0.6	1.1	1.6	2.9	2.9	3.0
Public Consumption	YoY	0.7	2.5	1.4	1.2	0.9	0.8	0.5	0.7	0.7	1.9	2.1	2.3
Private Consumption	YoY	2.5	2.0	1.7	1.7	1.7	1.8	0.5	1.0	1.7	3.0	3.0	3.1
Investment (Ex Stocks)	YoY	0.1	0.7	0.1	4.1	0.1	1.6	1.3	2.3	3.0	4.1	4.2	3.8
Exports	YoY	1.1	3.7	1.8	1.3	0.6	3.2	1.1	0.6	3.4	4.2	3.5	3.0
Imports	YoY	2.3	4.2	2.6	0.5	0.3	1.9	2.7	1.3	3.4	5.1	3.7	2.2
CPI (Average)	YoY	-0.7	-0.4	-0.4	0.9	0.4	1.4	2.4	1.8	1.9	0.7	1.7	1.8
Unemployment Rate	%	2.6	2.1	2.3	8.0	8.2	8.2	7.6	7.8	7.6	3.2	3.3	3.4
Current Account	% of GDP	12.8	12.8	12.0	7.2	7.3	7.1	5.3	4.7	4.0	14.2	14.5	14.9
General Govt Balance	% of GDP	0.5	0.4	0.4	-0.5	-1.2	-1.5	-3.8	-2.0	-1.2	13.6	13.2	13.0
General Govt Debt	% of GDP	46.7	45.5	44.0	36.6	37.3	37.6	49.8	50.7	50.1	NA	NA	NA

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

Canada

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

The economy is regaining its footing following the sharp deceleration in activity in the latter half of last year. Rebounds in exports and retail sales may lift output by 2% annualized in the first quarter. However, softer US demand amid more intense fiscal drag, moderation of the Canadian housing market, and a consolidating domestic government sector portend subpar growth this year. Inflation will be subdued near-term and CPI inflation is not expected to converge to the 2% target until 2H 2014.

Reflecting lackluster global growth, domestic slack, benign inflation and material reduction of imbalances related to elevated household debt levels and home prices, the BoC softened its tightening bias and stated that interest rates would remain unchanged for longer than anticipated. Hence, we have further delayed our call for the next rate hike from January 2014 to July 2014. Firmer global financial conditions and demand, nascent confidence and a broad investment revival in the second half of this year should support Canadian output and higher rates next year.

Internally, demand is forecast to continue to rotate away from households, governments and residential construction, and towards business investment and external trade. Consumer spending will remain modest amid depressed wage growth, deleveraging and shrinking home equity as the housing correction unfolds. Exports are projected to revive as Canadian firms spend to increase productivity, but currency strength and modest external demand will remain key challenges.

Upside risks include (1) stronger US demand; (2) faster Canadian export growth amid improved competitiveness or if global growth is more robust than projected; and (3) reinvigoration of the Canadian housing market. Downside risks include (1) EU policy challenges and a failure to contain the crisis; (2) delay of the Canadian capex and exports revival caused by weaker external demand or less supportive commodity prices; and (3) domestic consumer retrenchment linked to debt and/or disorderly unwind in housing activity. Risks remain roughly balanced, in our view.

Figure 27. Canada — Economic Forecast, 2012-2014F

					2012	2013F				2014F		
		2012	2013F	2014F	4Q	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	1.8%	1.6%	2.5%	1.1%	1.3%	1.2%	1.7%	2.2%	2.3%	2.5%	2.6%
	SAAR				0.6	2.0	1.5	2.6	2.8	2.4	2.5	2.8
Final Domestic Demand	YoY	1.9	2.0	2.3	1.9	1.8	1.8	2.1	2.1	2.2	2.3	2.3
	SAAR				2.6	1.7	1.9	2.4	2.6	2.1	2.1	2.3
Private Consumption	YoY	1.9	2.6	2.4	2.0	2.2	2.8	2.7	2.6	2.4	2.3	2.3
	SAAR				2.7	2.9	2.7	2.5	2.3	2.3	2.3	2.5
Government Spending	YoY	-0.6	0.9	1.0	0.5	0.9	0.6	1.3	0.9	1.0	1.0	1.0
	SAAR				2.4	0.7	1.0	1.0	1.0	1.0	1.0	1.0
Private Fixed Investment	YoY	5.3	1.4	3.5	3.5	1.5	0.4	1.6	2.3	3.2	3.9	3.7
	SAAR				2.4	-0.6	0.6	3.9	5.4	3.1	3.1	3.4
Exports	YoY	1.6	2.3	5.9	-2.1	0.1	0.4	3.7	4.9	4.9	5.9	6.3
	SAAR				1.2	6.0	2.3	5.3	5.8	6.0	6.5	6.8
Imports	YoY	2.9	2.7	4.7	2.1	1.7	2.3	2.7	4.0	4.4	4.5	4.7
	SAAR				-1.0	3.5	4.5	4.0	4.0	5.0	5.0	5.0
CPI	YoY	1.5	1.1	1.8	0.9	0.7	1.2	1.4	1.3	1.6	1.6	1.9
Core CPI	YoY	1.7	1.3	2.0	1.2	1.0	1.1	1.4	1.6	1.9	2.0	2.2
Unemployment Rate	%	7.3	7.2	6.8	7.2	7.1	7.3	7.3	7.1	6.8	6.9	6.9
Current Account Balance	C$bn	-67.0	-60.0	-53.0	-69.0	-58.3	-62.6	-61.4	-59.3	-54.9	-54.0	-51.9
	% of GDP	-3.7	-3.2	-2.7	-3.8	-3.1	-3.3	-3.3	-3.1	-2.9	-2.8	-2.7
Net Exports (Pct. Contrib.)		-0.5	-0.2	0.3	0.7	0.6	-0.8	0.3	0.4	0.2	0.3	0.4
Inventories (Pct. Contrib.)		0.2	-0.2	-0.1	-2.6	-0.1	0.3	-0.2	-0.3	0.0	0.0	0.0
Budget Balance (Fiscal Year)	% of GDP	-1.4	-0.9	-0.4								
Federal Budget Debt	% of GDP	33.3	33.1	32.4								
General Govt. Debt	% of GDP	86.1	85.7	84.7								

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

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

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

Australia

Recent developments have been mixed, but on balance suggest the RBA has enough signs to support its view that monetary stimulus is working and that it need not act on its easing bias in the near term. Importantly, it appears that widespread forecasts of a gradual rise in the unemployment rate to around 6% are too pessimistic. Indeed, the unemployment rate may be close to peaking at around a still-low 5½% and households' concerns about becoming unemployed have eased. Additionally, house prices have picked up slightly. That said, there is still a notable disconnect between consumers and businesses. Consumer sentiment has rebounded to above-average levels and there are signs that consumers are slightly more inclined to put additional funds to work rather than to pay down debt and place funds with banks. In contrast, business confidence and conditions are weak. A final rate cut is still possible given the high AUD and provided inflation is as low as we expect, even though markets have now priced out another cut.

New Zealand

Growth is picking up and the improved momentum appears to have carried through into Q1 this year based on recent readings of the PMI and business surveys. Ultra-low interest rates have boosted confidence and appetite for credit has increased slightly. At the same time, the RBNZ's forecast is for inflation not to return to the 2% midpoint of the target until Q3 2015, two quarters later than its previous forecast. Consequently, we remain of the view that the first tightening will not be until Q1 next year. The risks to our view are evenly balanced. Worsening drought conditions, the high NZD and fiscal consolidation could delay the initial tightening, while rising house prices and a faster improvement in the labour market could see an earlier move by the RBNZ.

Figure 28. Australia and New Zealand — Economic Forecast, 2012-2014F

	Australia			New Zealand		
	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP[a]	3.6%	2.4%	3.0%	2.2%	2.6%	2.8%
Real GDP (4Q versus 4Q)	3.1	2.6	3.0	1.6	3.5	2.2
Real Final Domestic Demand	4.8	2.5	2.8	2.4	3.9	3.2
Consumption	3.6	2.7	3.3	1.8	3.2	2.5
Govt. Current & Capital Spending[b]	1.6	1.0	2.3	0.5	1.0	0.9
Housing Investment	-5.4	2.5	6.4	13.4	28.5	8.9
Business Investment[c]	17.4	3.9	0.7	4.4	4.2	6.1
Exports of Goods & Services	5.7	6.2	6.9	2.1	1.8	1.0
Imports of Goods & Services	7.1	7.6	6.1	2.6	3.7	4.4
CPI	1.8	2.9	2.5	1.1	1.2	2.3
CPI (4Q versus 4Q)	2.3	2.8	2.6	0.9	2.0	2.2
Unemployment	5.2	5.5	5.7	6.9	6.1	5.1
Merch. Trade, BOP (Local Currency, bn)	-16.3	-34.0	-43.3	1.1	1.5	-0.5
Current Account, (Local Currency, bn)	-58.4	-74.6	-88.2	-10.3	-11.9	-15.3
Percent of GDP	-3.9	-4.8	-5.4	-5.0	-5.5	-6.8
Budget Balance[d] (Local Currency, bn)	-43.7	-12.5	0.5	-10.9	-6.7	-2.1
Percent of GDP	-3.0	-0.8	0.0	-5.3	-3.1	-0.9
General Govt. Debt (% of GDP)[e]	29.0	29.8	28.4	38.8	38.1	41.3
Gross Trading Profits[f]	-3.8	2.9	6.0	na	na	na

BOP Balance of payments basis. CPI Consumer Price Index. F Citigroup 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. [f]Company gross operating surplus. Sources: ABS, StatsNZ, NZIER and Citi Research

China

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

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

Enjiang Cheng
(86) 10 5937 6038
enjiang.cheng@citi.com

Real activity data without full seasonal adjustment suggest flattish growth in the first two months of 2013. On the demand side, investment was stronger than expected. In particular, real estate investment accelerated from 16.2% YoY in 2012 to 22.8% YoY in Jan-Feb. Consumption appears to have been hit hard by the campaign to curb lavish government spending. On the supply side, growth of industrial value added slowed to 9.9% YoY in Jan-Feb, but the economy might have grown 11.8% YoY if we use daily average growth to remove the distortion of an extra day in Feb last year. Exports surprised significantly on the upside, growing nearly 23.6% YoY in the first two months. In general, the economy seems to be growing at a pace of around 8%, consistent with our estimate. Inflation is not a major threat yet, but the upward trend will make policymakers vigilant. Consumer prices rose 1.1% MoM and 3.2% YoY in Feb, more than market expectations. However, the headline is distorted by holiday effects, and the average inflation in Jan-Feb was 2.6% YoY, only slightly higher than 2.5% YoY recorded in Dec-2012. The price level tends to fall in the month after the lunar new year, and headline CPI inflation may fall back to below 3% in March. However, inflation will likely continue to trend up for the rest of the year, driven by rising food and labor cost, abundant liquidity, and continued price reforms. We estimate that average inflation may exceed 3.5% YoY in 4Q.

The shifting balance of risks probably will usher in a neutral policy stance. While the growth rebound appears modest, abundant liquidity and credit early in the year may sustain investment and growth in the near term. At the same time, the expected uptrend of inflation appears to have become a concern of PBOC. The recent PBOC press conference confirmed our call of a neutral monetary policy stance in 2013. We expect the central bank will steadily bring broad money growth down to about 13% YoY and cap new lending at Rmb8.5-9.0tn (equivalent to credit growth of around 14%). In other words, the easing bias of monetary policy will be gradually removed, but the policy stance would not be tight, and should be supportive of the government's 7.5% growth target. Based on our assessment of the 2013 budget, fiscal policy would be less expansionary than in 2012. This policy mix would limit the growth (and inflation) upside, and we expect growth to fall below 8% in 2H.

Figure 29. China — Economic Forecasts, 2012-2014F

					2012	2013F				2014F		
		2012F	2013F	2014F	4QF	1QF	2QF	3QF	4QF	1QF	2QF	3QF
Real GDP	YoY	7.8%	7.8%	7.3%	7.9%	8.0%	8.2%	7.7%	7.5%	7.1%	7.2%	7.4%
Real Final Domestic Demand	YoY	8.3	8.3	7.7								
Consumption	YoY	8.2	8.5	8.1								
Fixed Capital Formation	YoY	8.4	8.2	7.3								
Industrial Production	YoY	10.0	10.0	9.3	10.0	10.2	10.4	9.8	9.5	9.1	9.2	9.5
Exports	YoY	7.9	9.0	12.1	9.6	16.0	5.0	7.0	9.0	10.0	12.0	12.0
Imports	YoY	4.3	8.0	14.1	2.7	6.0	9.0	9.0	8.0	12.0	14.0	14.0
Merchandise Trade Balance	$bn	231	269	263	83	43	54	75	96	38	50	74
FX Reserves	$bn	3,312	3,686	3,883	3,312	3,455	3,508	3,584	3,686	3,704	3,740	3,799
Current Account	% of GDP	2.6	2.4	2.2								
Fiscal Balance	% of GDP	-2.0	-2.0	-2.0								
General Govt. Debt*	% of GDP	43.3	42.0	40.4								
Urban Unemployment Rate	%	4.1	4.1	4.2	4.1	4.1	4.1	4.1	4.1	4.2	4.2	4.2
CPI	YoY	2.6	2.8	3.6	2.1	2.3	2.5	2.9	3.5	3.5	3.5	3.3
Exchange Rate (end period)	CNY/$	6.23	6.10	6.06	6.23	6.20	6.16	6.13	6.10	6.09	6.08	6.07
1-Yr Deposit Rate (end period)	%	3.00	3.25	3.75	3.00	3.00	3.00	3.00	3.25	3.50	3.50	3.50

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 govt and Ministry of Railway. Sources: Haver Analytics and Citi Research

India

Rohini Malkani
+91 22 6631 9876
rohini.malkani@citi.com

The latest high frequency numbers are encouraging, with January factory output coming in at 2.4% YoY. However, we stress that underlying trends remain weak, with growth on a 3mma basis a mere 0.3%. Assuming continued incremental policy momentum, we maintain our view of a shallow recovery in GDP growth to 5.7% YoY in FY14 v/s 5.0% in FY13.

We believe the budget presented on February 28 does the sensible thing: consolidate the fiscal deficit, stay away from feared pre-election excesses, try to offer some growth incentives/kickers and offer a bit for the financial markets. However, investors were building in more given the FM's recent road shows and his track record on surprising positively. While the budget did offer a bit — some investment tax incentives, a kicker for mortgages, savings initiatives and capital/bond market deepening, these are not particularly big, or likely to impact the economy near term.

Worries about India's current account deficit continue. Rising deficits and consequently the minimum external funding requirements to the tune of US$90bn bring to fore concerns on (1) India's rising vulnerability if the current global risk environment changes (2) Structural issues relating to the CAD, such as the rise in investment income outflows, impact of fuel reform on oil consumption and India's unabated demand for gold (3) Need to speed up measures to attract dollar inflows. All of this is likely to keep the currency under pressure in the Rs54-Rs56 range.

In line with expectations, the RBI in its March 19 policy cut the repo rate by 25bps to 7.50%. Going forward, despite GDP growth at a decades-low and core inflation moderating to sub 4% levels, we concur with the RBI's latest guidance that "the headroom for further monetary easing remains quite limited" due to (1) Double-digit trends in the CPI and (2) Elevated current account deficits. We thus maintain our view of the RBI likely to ease policy rates by only a further 25bps in 2013, likely in its Annual Policy on May 3.

Shortly after the RBI rate announcement, a key ally of the govt declared that it was withdrawing support. While investors had priced in politics dominating economics from Sept/Oct (See Asia Trip Notes) it has come into play sooner than expected. Although the govt still has a working majority in the Lower House, its position in the Upper House is relatively weaker. This could undermine the reform momentum seen since Sept 12. More-over, political uncertainty would once again bring up the chatter of early elections, threats of even slower growth and possible ratings action.

Figure 30. India — Economic Forecasts, FY2012/13-2014/15F

		FY 12/13F	FY 13/14F	FY 14/15F
Real GDP	YoY	5.0%	5.7%	6.4%
Final Domestic Demand	YoY	3.6	5.2	6.2
Private Consumption	YoY	4.1	5.5	6.7
Fixed Investment	YoY	2.5	4.0	5.5
Exports	YoY	5.1	10.0	11.0
Imports	YoY	5.7	12.0	9.5
Wholesale Price Index*	YoY	7.5	7.0	6.0
Consumer Price Index	YoY	9.0	8.5	7.5
Current Account	US$ bn	-88	-90	-88
	% of GDP	-4.7	-4.3	-3.6
Consolidated Fiscal Balance	% of GDP	-8.6	-8.3	-7.8
Centre Fiscal Balance	% of GDP	-5.2	-4.8	-5.0
US Dollar Exchange Rate	Average	55.0	56.0	55.6

Note: * In India, policymakers look at the wholesale price index. Sources: Haver Analytics and Citi Research

Korea

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

Against our expectation, the BoK held the policy rate unchanged at the March MPC meeting. However, it maintained its view that the economy will show a negative output gap for a while and inflation will stay low. As a result, we still do not rule out a 25bps rate cut at next MPC meeting. Furthermore, the BoK Governor’s rhetoric for policy coordination over the past few months increases the possibility of a rate cut at the April MPC meeting, since the government is expected to implement a fiscal stimulus of around KRW10trn in April after setting up a new cabinet in March. Despite our rate cut expectation, we think the BoK will likely consider a rate hike in the latter part of 2H as headline CPI inflation rises above 3% while inflation expectations remain high. We continue to expect a rate hike in December at the earliest as long as the KRW does not appreciate markedly against the USD and JPY. Geopolitical risks escalated after North Korea’s 3rd nuclear test in February increased the volatility of the FX market and led USDKRW up to about the 1,100 level. Given the Korea-US military drills till end-April, and sanctions by the UN Security Council, North Korea is likely to maintain a hostile stance for a while and this will limit the strength of KRW.

Indonesia

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

Growth momentum so far has been kept in check. Car sales (a coincident indicator) grew 22% YoY in Feb-13 and consumer confidence is still at historically high levels. Investment indicators such as truck and heavy machinery sales, which had dropped in 2H12 due to lower demand from mining industries, have shown some signs of recovery. Yet prices of key commodity exports such as coal and palm oil have been relatively stagnant, although the recent pull-back in oil prices could be favorable for the trade balance near term. Longer term, the oil and gas trade deficit risks widening further as oil import volumes grow unabated. In February, foreign reserves continued to slide, reaching $105.2bn. Although portfolio inflows in 2Q may improve amid planned issuances of global bonds, we have grown slightly more cautious on the 6-12M outlook on the IDR (forecast revised to 9,900/$ from 9,800). Meanwhile YoY inflation may creep up in coming months following tighter import regulations which are pushing up food prices. Although BI apparently remains comfortable as long as core inflation remains tame, we do not rule out a 1x25bps FasBI rate hike by end 2Q.

Figure 31. Korea and Indonesia — Economic Forecasts, 2012-2014F

		Korea			Indonesia		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	2.0%	3.2%	4.1%	6.2%	6.2%	6.3%
Final Domestic Demand	YoY	1.2	2.8	3.7	6.2	6.3	6.9
Private Consumption	YoY	1.8	2.4	3.4	5.3	5.2	5.1
Fixed Investment	YoY	-1.3	2.6	4.7	9.8	7.7	9.4
Exports	YoY	3.7	4.8	9.5	2.0	5.0	9.1
Imports	YoY	2.3	4.3	9.3	6.6	5.1	10.6
Consumer Price Index	YoY	2.2	2.5	3.0	4.3	4.7	4.7
Unemployment Rate	%	3.2	3.3	3.2	6.1	5.9	5.8
Current Account	US$ bn	43.1	31.6	26.6	-24.2	-20.5	-19.1
	% of GDP	3.8	2.5	1.9	-2.8	-2.1	-1.8
Fiscal Balance	% of GDP	1.4	1.1	1.4	-1.8	-1.5	-1.4
US Dollar Exchange Rate	Average	1127	1081	1025	9361	9818	9772

Sources: Haver Analytics and Citi Research

Hong Kong

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

We expect the economic recovery to continue in 2013, but 1Q growth could show a more gradual pace of 2.3% YoY, before picking up in the later quarters. CPI inflation will likely rise starting in February, initially exaggerated by base effects from the Chinese New Year and subsequently reflecting faster pass-through of private rents and stronger economic growth. The doubling of stamp duties and HKMA's tightening of prudential measures announced in late February appear to be yielding some initial success at lowering transaction volumes and prices in the primary residential market. The latest mortgage rate hike (first hike since late 2011) is driven by banks passing on higher capital costs incurred by the new HKMA rule, and this will also play a part in dampening the property market. The HKD pulled back from the strong end of the trading band on USD strength, slow Chinese economic recovery and choppy equity markets.

Singapore

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

Incoming Jan-Feb data point to lackluster GDP growth of 2-3% QoQ SAAR in 1Q, as continued weakness in manufacturing was offset by a pick-up in activities related to domestic and regional demand. The latest employment surveys also point to rising hiring intentions in 2Q, suggesting that labour market tightness in 4Q12 will likely persist into 2013. Given the still-tight labour market and continued positive output gap — consistent with policymakers' observations of an economy at "full capacity" — we expect no change in MAS's policy stance in April, despite some speculation of easing. With non-tradables productivity likely to continue to lag tradables, policymakers accept that the REER may have further to appreciate, while the political backdrop favours a hawkish bias to anchor inflation expectations.

Taiwan

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

Although February trade data weakened beyond seasonal factors, we still expect the global trade recovery will benefit Taiwan in 2013. This year will likely also see a capex recovery, sponsored by pent-up private investment and the government's new initiatives to attract FDI from foreign nationals and Mainland investors. After the starting of RMB clearing and banking in early February, President Ma repeated recently that the Free-Trade-Agreements with Singapore and New Zealand will be signed soon, and trade talks with US have also been resumed. CPI inflation is likely to continue to pick up in the near term, even though the February surge was exaggerated by festive price rises from the Chinese New Year. TWD likely to depreciate further with the JPY and KRW in the near term, however, we still expect a mild appreciation in 2013. Long bond yields are rising along with US treasuries.

Figure 32. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2012-2014F

		Hong Kong			Singapore			Taiwan		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	1.4%	3.0%	3.5%	1.3%	2.0%	4.0%	1.3%	3.5%	4.0%
Final Domestic Demand	YoY	5.2	2.4	2.0	2.9	2.5	3.5	0.1	2.0	3.3
Private Consumption	YoY	4.0	2.1	2.1	2.2	2.8	3.3	1.5	1.9	2.7
Fixed Investment	YoY	9.1	3.0	2.0	6.6	2.5	3.8	-4.4	3.5	6.8
Exports	YoY	1.3	1.9	4.3	0.3	2.2	3.2	0.1	4.3	4.3
Imports	YoY	2.5	1.9	3.7	3.2	2.4	2.9	-1.9	2.7	3.0
CPI	YoY	4.1	4.3	3.7	4.6	4.0	3.4	1.9	1.7	2.0
Unemployment Rate	%	3.3	3.3	3.2	2.0	1.9	1.8	4.2	4.1	4.0
Current Account	US$ bn	13.2	15.9	18.7	51.5	41.6	44.2	49.6	43.6	44.2
	% of GDP	5.0	5.6	6.2	18.6	14.0	13.5	10.5	8.4	8.0
Fiscal Balance	% of GDP	3.2	1.8	1.0	1.1	0.7	0.5	-1.6	-1.2	-1.3
US Dollar Exchange Rate	Average	7.76	7.76	7.75	1.25	1.23	1.20	29.57	29.46	28.57

Sources: Haver Analytics and Citi Research

Russia

Natalia Novikova
+7 495 643 1507
natalia1.novikova@citi.com

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

GDP growth decelerated to 2.2% YoY in 4Q12 from 4.5% YoY in 1H12. The slowdown is faster than the consensus expected, but broadly in line with our expectations. In January, retail sales slowed to 3.5% YoY from 7.4% in 1H2012 as effects of pre-election spending tapered off; industrial production turned negative YoY and investment stagnated. Headline inflation remained above the CBR target of a 5-6% range for the fifth month in a row, reaching 7.3% YoY at the end of February. Despite slowing growth, we do not expect the CBR to cut repo rates before 2H2013 when inflation probably will start to come off. We forecast inflation to remain at 6.5-7% YoY in 2Q, slowing to 5.9-6% in December 2013 owing to weak economic growth. Since its hike in September, the CBR adjusted its policy instruments on the margin, abstaining from changes in its policy stance. Net capital outflows have slowed in 2012 owing to the larger private sector borrowing from abroad. Euroclear introduction for OFZ in February and the seasonally strong current account should keep the ruble below 35/BASK. However, the CBR is likely to continue intervening asymmetrically on the FX market in order to provide domestic ruble liquidity.

Turkey

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

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

In our view, the likely deterioration in the current account balance will take center stage going forward. Our analysis suggests that the seasonally adjusted current account deficit deteriorated markedly in January to an annualized level of US$54.8bn — the widest since February 2012 — from US$46.4bn previous month. Moreover, the ongoing pick up in domestic demand, coupled with fading gold exports and elevated oil prices, points to further deterioration on the external front. Against this backdrop, we expect that the CBT's response going forward is likely to include cutting rates and hiking RRR, provided that the TRY basket remains between 2.06 and 2.10. In parallel, we believe that political developments deserve closer monitoring, owing to the ongoing discussions with the PKK and the possibility of a referendum on a new constitution in 3Q or 4Q this year. Moreover, the upcoming local elections (March 2014) and presidential elections (summer 2014) could have implications for investor sentiment if populist policies lead to a visible deterioration on the fiscal front. We think that headline budget figures are unlikely to deteriorate markedly thanks to strong revenues. Nonetheless, if the recent sharp increase in non-interest expenditures continues, it could undermine budget performance and thus affect sentiment adversely.

Figure 33. Russia and Turkey — Economic Forecast, 2012-14F

		Russia			Turkey		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	3.4%	3.0%	3.6%	2.5%	4.0%	4.3%
Final Domestic Demand	YoY	1.3	1.0	1.5	-0.6	3.4	4.8
Private Consumption	YoY	6.6	5.0	5.0	-0.3	3.2	4.3
Fixed Investment	YoY	6.0	4.6	6.5	-3.1	4.2	6.7
Exports	YoY	1.8	1.1	1.7	13.0	4.5	4.2
Imports	YoY	8.7	4.5	4.5	-2.9	2.5	6.1
CPI	YoY	5.1	6.7	5.4	8.9	7.4	7.3
Unemployment Rate	%	5.7	6.5	7.0	9.2	9.5	9.5
Current Account	US$ bn	81.1	60.2	20.6	-46.9	-59.7	-66.1
	% of GDP	4.2	2.8	0.9	-5.8	-6.8	-6.9
Fiscal Balance	% of GDP	-0.7	-2.0	-4.2	-2.0	-2.2	-2.7
US Dollar Exchange Rate	Average	31.1	31.3	32.5	1.80	1.85	1.89

Sources: Haver Analytics and Citi Research

Hungary

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

Monetary policy changes will likely dominate the market outlook near term as former EconMin Matolcsy took over the Governance of the NBH and PM Orban reiterated plans about further aid schemes for FX-indebted households and SMEs. As the economy continues to contract, a positive turn in the credit cycle and growth are the focus of policy measures. Since fiscal policy remains constrained under the EDP — which we expect to remain in place given the increased political tensions with the EU on disputes over constitutional changes — monetary policy will likely strive to take a more active role to support growth. This, alongside a sharp drop in inflation (likely bottoming out around 2% in 3Q13), may deliver further gradual rate cuts as long as FX weakening remains under control and bond auctions remain successful. Given the high import share of exports (~60%) and fixed investment (~50%) and the public and private sector's high FX debt exposure (93% of GDP), the net impact of permanent FX weakness would be growth negative. Therefore we believe a weaker FX is not a political target and further pressure on the currency will likely force policy makers to clear the picture about potential new measures and slow or halt rate cuts to prevent FX depreciation. Given the uncertain timing of such policy action, we expect excessive market volatility in the coming months.

Poland

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

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

In March, the Monetary Policy Council surprised markets by cutting the base rate by 50bp to a record low level of 3.25%. The surprise came from the fact that, in previous months, the monetary authorities had signaled they would want to slow the easing cycle and would not want to cut rates by more than 25bp in one step. In our opinion, the March decision probably ends the easing cycle and we believe an additional rate cut would only be delivered if growth and inflation surprise to the downside as compared to the central bank's projection. Since the projection assumes a relatively realistic growth path and optimistic inflation outlook (we see risks of higher CPI in 2014), our base case scenario is for a stabilization of rates in the coming months. As far as recent economic data are concerned, they confirm economic growth is likely to bottom out in 1Q 2013 and will probably accelerate in coming quarters. We estimate full year growth will reach 1.3% in 2013 and around 2.8% in 2014. Taking into account weak domestic demand, we expect further negative surprises in budget revenues, leading to a revision of the Budget Act in 2H of the year. However, the negative impact on the bond market should be partly limited by the fact the Finance Ministry has already managed to finance more than 50% of its annual borrowing needs.

Figure 34. Hungary and Poland — Economic Forecasts, 2012-2014F

		Hungary			Poland		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-1.7%	-0.1%	1.2%	2.0%	1.3%	2.8%
Final Domestic Demand	YoY	-2.1	-1.2	-0.6	0.4	0.1	2.9
Private Consumption	YoY	-1.5	-0.5	-0.2	0.5	1.1	3.1
Fixed Investment	YoY	-3.8	-3.9	-2.5	0.6	-3.1	2.7
Exports	YoY	2.0	2.3	3.9	1.6	2.2	8.5
Imports	YoY	0.1	1.1	2.6	-2.5	-0.1	9.0
CPI	YoY	5.7	2.7	3.1	3.7	1.7	2.4
Unemployment Rate	%	10.9	10.0	10.2	13.3	14.2	13.4
Current Account	US$ bn	2.4	3.7	4.7	-17.3	-14.0	-19.6
	% of GDP	1.8	3.0	3.5	-3.5	-2.7	-3.5
Fiscal Balance	% of GDP	-2.7	-2.9	-3.6	-3.5	-3.5	-2.8
Euro Exchange Rate	Average	289	304	295	4.18	4.20	4.06

Sources: Haver Analytics and Citi Research

Czech Republic

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

We see a downside risk that GDP might fall 0.4%YoY in 2013 compared to our baseline expectation of -0.2% on possible weaker positive pass-through of a weaker koruna. Having said that, it will likely be slightly offset by a smaller fall in value added compared to the flash estimate. Our expectation of a 0.9% recovery in 2014 is below the CNB forecast of 2.1%. Overall, we think the data published in March is a disinflationary risk to the CNB's forecast. Although January retail sales were better than expected, they still fell and the better January outcome was probably due to temporary factors. The monetary-policy relevant CPI came in below the CNB's target in February, while headline CPI (1.7%YoY) was below the CNB forecast of 2%. Stronger wage growth in 4Q12 was driven by bonuses, while private consumption in 2012 was revised downwards closer to the CNB's dovish sensitivity scenario from its February Inflation Report. However, we expect monetary policy will remain less dovish in the near term until there is a more significant fall in the consensus on German and Euro Area GDP or there is a clear signal from the ECB on further loosening. By contrast, adjusted core CPI eased its contraction to -0.4%YoY, which is an upside risk to the CNB's forecast, though the difference to the CNB's forecast of 0.5% in our view reflects a transfer of deregulated rents to this "demand-pull" basket of CPI. That said, we still estimate the CNB's desired level of EURCZK will be c.26 by end-2013, above the CNB's forecast at 25.1.

Romania

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

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

The leu continues to benefit from a marked increase in investor appetite for domestic debt, which is, in part, driven by the inclusion of Romanian domestic bonds in two major emerging markets local currency bond indices. This, coupled with the absence of signs for a meaningful recovery, seems to have led the NBR to have relaxed its stance, in our view. Recent comments by senior NBR officials and the evolution of money market rates in recent weeks also corroborate this conjecture. The challenging inflation outlook, the risks associated with the IMF program and potential spillovers from the euro area crisis, however, limit the ability of the NBR to relax liquidity conditions further without hurting the currency. With this backdrop in mind, we argue that the current level of carry remains attractive and should continue to support the currency in the near-term. Moreover, we believe there are no major valuation concerns and the NBR is likely to have a higher tolerance for appreciation this year given the challenging inflation outlook.

Figure 35. Czech Republic and Romania — Economic Forecasts, 2012-2014F

		Czech Republic			Romania		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	-1.2%	-0.2%	0.9%	0.0%	1.0%	2.8%
Final Domestic Demand	YoY	-2.4	-0.7	0.8	0.5	1.0	2.5
Private Consumption	YoY	-3.5	-0.5	0.0	0.2	0.7	2.4
Fixed Investment	YoY	-1.5	-1.3	3.0	1.5	2.0	3.5
Exports	YoY	4.1	1.8	2.4	-0.6	2.0	4.0
Imports	YoY	2.1	0.6	4.5	0.2	1.5	3.0
CPI	YoY	3.3	2.1	1.5	3.3	5.3	3.6
Unemployment Rate	%	7.0	7.6	7.7	5.0	5.2	5.5
Current Account	US$ bn	-4.0	-3.0	-3.7	-6.5	-7.0	-9.0
	% of GDP	-2.0	-1.5	-1.8	-3.9	-3.8	-4.5
Fiscal Balance	% of GDP	-4.8	-3.0	-2.7	-2.2	-2.2	-2.5
EURCZK, USDRON	Average	25.1	25.9	25.2	3.5	3.3	3.3

Sources: Haver Analytics and Citi Research

Brazil

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

2012 GDP growth reached 0.9% q/q in line with our expectation, confirming the gradual recovery outlook is continuing. This pace is consistent with our 2013 and 2014 GDP growth forecasts of 3.1% and 4.0%, respectively. On the inflation front, CPI figures in the early months of this year surpassed expectations markedly, even after considering the significant one-off favorable impact of the energy price drop. Because of that, the government and policymakers have raised their concerns about inflation, motivating the central bank to exclude its previous phrase that monetary conditions would be kept stable for a "*sufficiently prolonged period*". Consequently, we changed our monetary policy call, and anticipate a tightening cycle beginning in May, with the Selic rate reaching 8.75% at the end of process. On the FX front, price concerns will likely continue motivating FX interventions in order to keep the USD/BRL below the 2.0 level. Finally, the approval of the 2013 Budget Law consolidated a scenario of looser fiscal policy, with the primary surplus stabilizing at a level significantly below the full target of 3.1% of GDP.

Mexico

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

The latest IP figure was encouraging, up 1.7% YoY, rebounding from December's 1.1% YoY fall. We adjusted our 1Q13 GDP growth forecast to 1.7%YoY from 2.5% before, but this is essentially a reassessment of calendar effects. This will have an opposite effect in 2Q13 GDP growth, which we raised to 4.3%YoY from 3.6%. Our GDP growth forecast of 3.6% for 2013 is unchanged. Headline inflation was 3.55% in February, up from 3.25% in January but we see this rise as temporary. We still see headline and core inflation at 3.6% and 3.3% in 2013. As we expected, Banxico cut its policy rate by 50bp to 4% at its March meeting. Banxico argued that structural improvements on the inflation front allowed the cut. We think that the aim of bringing policy rates more in line with monetary conditions elsewhere as well as with potentially larger capital inflows also influenced the decision. Banxico stressed that this was not the start of an easing cycle. We agree: current macro conditions are consistent with the new level of policy rates and those conditions would have to experience a meaningful change to open the door to new adjustments. Congress now has a far-reaching bill to increase media and telecoms competition which may create opportunities, especially if it triggers upgrades in country risk ratings. We believe this will make for a very interesting 2H13 in Mexico.

Figure 36. Brazil and Mexico — Economic Forecasts, 2012-2014F

		Brazil			Mexico		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	0.9%	3.1%	4.0%	3.9%	3.6%	3.8%
Final Domestic Demand	YoY	1.7	3.8	4.6	3.6	3.7	4.1
Private Consumption	YoY	3.1	4.1	4.5	3.1	3.4	3.7
Fixed Investment	YoY	-4.0	3.2	7.0	6.3	6.4	6.9
Exports	YoY	0.5	5.2	5.1	4.9	3.2	7.4
Imports	YoY	0.2	8.6	8.1	4.0	3.3	5.6
CPI	YoY	5.4	6.3	5.5	4.1	3.7	3.6
Unemployment Rate	%	5.5	5.5	5.4	5.0	5.1	4.5
Current Account	US$ bn	-54.2	-67.7	-77.9	-7.1	-18.9	-21.7
	% of GDP	-2.5	-3.1	-3.2	-0.6	-1.4	-1.5
Fiscal Balance	% of GDP	-2.6	-2.4	-2.2	-2.6	-2.1	-2.0
US Dollar Exchange Rate	Average	1.95	1.97	2.04	13.16	12.18	12.21

Sources: Haver Analytics and Citi Research

Argentina

Joaquin A Cottani
(1-212) 816 2735
joaquin.cottani@citi.com

FX controls are failing to prevent the central bank's international reserves from dropping. Reserves have shrunk USD2.1bn so far this year to USD41.2bn, their lowest level since June 2007.The central bank's foreign currency purchases have been slightly negative during the first 45 days of 2013 (-USD45mn), even though public agencies have been selling foreign currency to aid the bank (as evidenced by the USD0.8bn drop in public-sector USD deposits since the end of 2012). Meanwhile, the peso has weakened markedly in the unregulated blue chip swap market to 8.4ARS/USD. Expectations for the 2012/13 harvest have also deteriorated. Now the U.S. Department of Agriculture expects Argentina's 2012/13 soy and corn crops to stand at 51.5 and 25.5 million tons respectively. The recent pressure on the official FX market plus the worse outlook for the 2012/13 harvest imply a negative bias to our FX and activity forecasts, in our view. We expect non-official (and also official) growth to be 3% in 2013 and the USDARS to stand at 6 by yearend. We also expect non-official CPI inflation to accelerate to 30% in 2013.

Venezuela

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

The evolution of the presidential race will be the most important event during the coming weeks. The campaign will last 10 days and is scheduled to begin on April 2. Given that campaign will be short, we expect the PSUV to focus on the continuation of Mr. Chávez's social and economic reforms and for the opposition to offer an alternative to the status quo. The fact that Mr. Maduro was named by Mr. Chávez as his political heir during his last public appearance back in December, along with PSUV's strong political base and the sympathy effect that Mr. Chávez's passing away is having on the electorate will likely make Mr. Maduro the winner of the presidential election against Mr. Capriles in our view. In the meantime, we expect the government to make economic announcements that could boost its popularity, such as an increase in the minimum wage and the implementation of the already announced new FX mechanism (*Sicad* for its Spanish acronym).

Figure 37. Argentina and Venezuela — Economic Forecasts, 2012-2014F

		Argentina			Venezuela		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	1.9%	3.0%	3.0%	5.6%	1.0%	2.0%
Final Domestic Demand	YoY	2.1	3.3	2.8	11.5	-0.2	0.7
Private Consumption	YoY	4.0	3.5	3.2	7.0	-0.8	0.0
Fixed Investment	YoY	-5.2	1.6	1.9	22.4	-0.9	1.1
Exports	YoY	-4.5	2.2	-1.9	1.6	2.6	4.8
Imports	YoY	-5.9	4.4	-2.3	22.2	-1.9	-1.0
CPI	YoY	10.0	12.6	14.5	21.1	24.6	24.0
Unemployment Rate	%	7.2	7.6	7.8	5.9	6.4	6.8
Current Account	US$ bn	3.5	2.0	1.0	17.1	17.3	24.6
	% of GDP	0.7	0.4	0.2	4.5	5.0	5.7
Fiscal Balance	% of GDP	-2.4	-2.7	-2.9	-5.0	-4.0	-4.0
US Dollar Exchange Rate	Average	4.54	5.46	6.74	4.29	6.13	6.30

Sources: Haver Analytics and Citi Research

Saudi Arabia

Farouk Soussa
+971 (4) 509 9750
farouk.soussa@citi.com

Saudi oil production continues to fall, standing at 9mbpd at end-February from a peak of 9.8mbpd last August (Bloomberg data). Although some of the decline is explained by lower domestic consumption in the forthcoming summer months, we note that production at end-February 2012 was almost 9.7mbpd, suggesting broader Saudi concerns regarding supply and demand risks, and a desire to avoid sharp declines in the price, are behind the production cuts as well. Average oil production in 2012 was almost 6% up on 2011, and, combined with sustained high oil prices, boosted total revenues to the government to over SAR 1.2tr, higher than our own projections. Expenditure, however, also exceeded projections, up 6.1% on 2011 outlays, resulting in an overall surplus of SAR 386bn (14.3% of GDP), only slightly above our projection of SAR 342bn (12.6% of GDP). For 2013, we are projecting a decline in both oil production and prices, resulting in a decrease of over 13% in government revenues (although at SAR 1.1tr our figure is still a third higher than the government's own very conservative revenue projections). With expenditures expected to rise by around 5% this year, we see the overall surplus shrinking to around 6.6% of 2013 GDP, a trend that will continue in the future as oil production and prices soften going forward, while expenditure will probably rise steadily. We have calculated the 2013 fiscal breakeven oil price (assuming average oil production of 9.5mbpd) to be US$80 per barrel. In terms of economic activity, our projected reduction in production this year would result in a shrinking of the oil economy of almost 3%, which should be compensated by a surge in non-oil growth (helped by government expenditure and housing) of 8.5%, leading to overall growth of just over 6% for 2013.

United Arab Emirates

Farouk Soussa
+971 (4) 509 9750
farouk.soussa@citi.com

Draft legislation allowing up to 100% foreign ownership in companies outside free zones has been rejected by the UAE's Federal National Council (FNC), the country's consultative council. The clause of an amended company law that would allow foreign ownership will now be included in a new foreign investment law, subject to amendments. In Dubai, Dubai Group, the private equity arm of Dubai Holdings, has struck a deal with four banks that had last year threatened litigation due to frustration in the company's ongoing $6bn debt restructuring. According to reports (FT, March 3), the banks will take a haircut of over 80% in order to receive funds up front rather than be rolled into a lengthy restructuring. The Investment corporation of Dubai (ICD) has also entered into talks to refinance US$2bn in loans coming due this summer (Reuters, Feb 11).

Figure 38. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2012-2014F

		Saudi Arabia			United Arab Emirates		
		2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	6.8%	6.2%	7.3%	2.1%	4.6%	4.9%
Final Domestic Demand	YoY	2.3	8.1	8.1	3.4	3.4	3.8
Private Consumption	YoY	1.6	5.0	5.0	2.0	2.0	3.0
Fixed Investment	YoY	1.1	10.0	10.0	5.0	5.0	5.0
Exports	YoY	-16.9	-8.3	1.7	13.0	13.0	13.0
Imports	YoY	5.2	15.0	15.0	15.0	15.0	15.0
CPI	YoY	4.0	6.0	8.0	1.0	1.3	1.5
Current Account	US$ bn	176.2	113.5	87.2	12.0	20.7	31.1
	% of GDP	24.2	15.7	11.2	3.7	5.9	8.1
Fiscal Balance	% of GDP	14.2	4.6	-0.7	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

South Africa

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

Q4 12 GDP probably slowed due to operational closures and labour unrest in the mining sector. We believe union rivalry and rising low-income inflation are key culprits here. The retail sector has also lost momentum as consumer balance sheets remain stretched and real incomes wane amidst rising inflation. This, together with a pull-back in unsecured lending and attempts to contain the public sector wage bill, leaves the economy with sideways consumption growth this year in our view. Low business confidence is keeping a lid on private investment intentions and growth is only likely to come from replacement/maintenance of current capex. While this limits capital imports, government infrastructure plans will keep public sector imports resilient, and therefore we expect the current account to narrow only slightly this year. Socio-economic concerns leave financing questionable and hence the currency remains depressed (we forecast R9.50/USD by year-end). This, together with rising food inflation should push CPI above the 6% target ceiling in Q2 13, although sub-par GDP growth will limit the SARB's responsiveness. As such, the repo rate will remain unchanged at 5.0% until Q4 14, in our view. Fiscal policy will remain a key focus through the year from a financing and sovereign ratings perspective. Slower fiscal consolidation should be expected but, if the rating agencies see a bias toward 'social expenditure', a further sovereign ratings downgrade cannot be ruled out.

Figure 39. Egypt, Nigeria and South Africa — Economic Forecast, 2012-2014F

		Egypt			Nigeria			South Africa		
		2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Real GDP	YoY	2.1%	1.2%	3.5%	7.4%	6.8%	7.2%	2.4%	2.8%	3.1%
Final Domestic Demand	YoY	4.0	-0.3	2.8	NA	NA	NA	3.9	4.0	4.4
Private Consumption	YoY	2.8	-0.7	2.5	NA	NA	NA	3.0	3.1	3.4
Fixed Investment	YoY	3.8	1.8	4.7	NA	NA	NA	6.1	6.1	7.1
Exports	YoY	-1.1	1.7	6.1	NA	NA	NA	-0.6	0.2	3.1
Imports	YoY	2.7	-3.4	3.6	NA	NA	NA	7.8	4.1	6.6
CPI	YoY	7.1	12.6	12.7	12.2	9.8	9.7	5.7	5.9	5.3
Unemployment Rate	%	12.5	14.0	15.0	NA	NA	NA	25.7	26.5	27.0
Current Account	US$ bn	-8.9	-7.0	-8.0	6.9	11.9	12.3	-23.2	-21.6	-21.9
	% of GDP	-3.6	-3.0	-3.2	2.4	3.7	3.3	-6.0	-5.7	-5.5
Fiscal Balance	% of GDP	-10.0	-9.7	-8.6	-2.8	-2.6	-2.8	-5.0	-5.2	-5.0
US Dollar Exchange Rate	Average	6.07	7.22	7.81	158.8	160.92	164.00	8.21	9.39	9.50

Sources: Haver Analytics and Citi Research

Figure 40. Selected Emerging Market Countries — Economic Forecast Overview, 2012-2014F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F	2012F	2013F	2014F
Asia	6.2%	6.5%	6.5%	3.7%	3.8%	4.1%	2.0%	1.7%	1.5%	-2.6%	-2.5%	-2.4%
China	7.8	7.8	7.3	2.6	2.8	3.6	2.6	2.4	2.2	-2.0	-2.0	-2.0
Hong Kong	1.4	3.0	3.5	4.1	4.3	3.7	5.0	5.6	6.2	3.2	1.8	1.0
India*	5.0	5.7	6.4	7.5	7.0	6.0	-4.7	-4.3	-3.6	-8.6	-8.3	-7.8
Indonesia	6.2	6.2	6.3	4.3	4.7	4.7	-2.8	-2.1	-1.8	-1.8	-1.5	-1.4
Korea	2.0	3.2	4.1	2.2	2.5	3.0	3.8	2.5	1.9	1.4	1.1	1.4
Malaysia	5.6	5.5	6.0	1.6	1.7	2.4	6.4	5.0	4.0	-4.5	-4.0	-3.5
Mongolia	12.3	13.8	11.0	14.3	12.0	10.0	-31.3	-22.4	3.1	-8.3	-2.4	-2.0
Philippines	6.6	6.2	6.6	3.1	3.5	3.8	3.9	3.2	2.2	-2.3	-2.3	-2.0
Singapore	1.3	2.0	4.0	4.6	4.0	3.4	18.6	14.0	13.5	1.1	0.7	0.5
Sri Lanka	6.4	6.7	7.1	7.5	7.1	6.5	-5.5	-4.7	-4.0	-6.7	-6.2	-5.5
Taiwan	1.3	3.5	4.0	1.9	1.7	2.0	10.5	8.4	8.0	-1.6	-1.2	-1.3
Thailand	6.4	4.7	4.8	3.0	3.3	3.5	0.7	-0.3	-0.5	-2.1	-2.2	-2.1
Vietnam	5.0	5.4	5.8	9.3	7.6	7.2	3.2	2.4	0.7	-5.2	-3.8	-4.0
Latin America	2.4	3.4	4.0	5.8	6.2	5.9	-1.4	-1.8	-1.8	-2.3	-2.2	-2.1
Argentina	1.9	3.0	3.0	10.0	12.6	14.5	0.7	0.4	0.2	-2.4	-2.7	-2.9
Brazil	0.9	3.1	4.0	5.4	6.3	5.5	-2.5	-3.0	-3.2	-2.6	-2.4	-2.2
Chile	5.6	4.6	5.0	3.0	2.2	2.8	-3.0	-2.4	-2.5	0.6	-0.3	-0.4
Colombia	3.6	3.8	4.5	3.2	2.1	3.0	-3.2	-3.3	-3.1	-0.1	-1.1	-0.7
Mexico	3.9	3.6	3.8	4.1	3.7	3.6	-0.6	-1.4	-1.5	-2.6	-2.1	-2.0
Panama	10.5	9.0	8.0	5.7	4.4	4.4	-8.5	-8.1	-7.8	-2.8	-3.0	-3.0
Peru	6.3	6.2	6.5	3.7	2.6	2.5	-3.6	-2.6	-2.7	0.5	-0.6	-2.0
Venezuela	5.6	1.0	2.0	21.1	24.6	24.0	4.5	5.0	5.7	-5.0	-4.0	-4.0
Europe	2.5	2.6	3.5	5.3	5.8	5.2	0.2	-0.5	-1.5	-1.7	-2.2	-3.3
Czech Republic	-1.2	-0.2	0.9	3.3	2.1	1.5	-2.0	-1.5	-1.8	-4.8	-3.0	-2.7
Hungary	-1.7	-0.1	1.2	5.7	2.7	3.1	1.8	3.0	3.5	-2.7	-2.9	-3.6
Kazakhstan	5.5	4.8	4.1	5.1	6.9	6.4	6.6	3.7	2.2	1.6	2.7	1.8
Poland	2.0	1.3	2.8	3.7	1.7	2.4	-3.5	-2.7	-3.5	-3.5	-3.5	-2.8
Romania	0.0	1.0	2.8	3.3	5.3	3.6	-3.9	-3.8	-4.5	-2.2	-2.2	-2.5
Russia	3.4	3.0	3.6	5.1	6.7	5.4	4.2	2.8	0.9	-0.7	-2.0	-4.2
Slovakia	2.0	0.7	1.6	3.6	2.2	2.5	2.3	3.6	3.3	-5.1	-3.2	-2.9
Turkey	2.5	4.0	4.3	8.9	7.4	7.3	-5.8	-6.8	-6.9	-2.0	-2.2	-2.7
Ukraine	0.5	0.0	4.1	0.6	4.2	6.8	-8.4	-9.2	-6.5	-3.4	-4.8	-2.8
Africa/Mideast	4.9	5.1	5.6	4.9	5.8	6.2	10.5	7.9	6.0	3.3	0.7	-1.2
Bahrain	3.5	3.6	4.4	2.8	4.0	2.5	11.5	9.7	5.4	1.6	3.7	3.4
Egypt	2.1	1.2	3.5	7.1	12.6	12.7	-3.6	-3.0	-3.2	-10.0	-9.7	-8.6
Ghana	7.4	7.0	6.8	9.2	9.5	10.7	-11.7	-10.0	-8.9	-7.6	-12.7	-8.5
Iraq	9.0	12.1	9.9	6.1	6.0	6.0	23.3	20.1	16.2	-2.0	2.0	0.4
Israel	2.9	2.9	3.8	1.7	2.3	2.6	-1.4	-0.6	0.0	-3.7	-1.6	-2.5
Jordan	2.5	3.0	4.0	4.8	5.5	5.0	-19.7	-14.2	-12.0	-7.8	-7.7	-7.7
Kenya	5.0	5.4	6.1	9.6	6.4	9.2	-10.5	-8.9	-7.6	-5.3	-5.0	-4.7
Kuwait	8.4	3.9	4.0	2.9	5.0	5.0	50.6	48.7	45.6	33.5	25.1	20.1
Lebanon	2.0	2.0	4.5	6.4	5.0	5.0	-14.6	-15.7	-15.9	-7.3	-8.7	-8.8
Nigeria	7.4	6.8	7.2	12.2	9.8	9.7	2.4	3.7	3.3	-2.8	-2.6	-2.8
Oman	7.1	6.7	6.7	2.9	3.0	3.0	2.9	9.4	6.0	11.0	12.3	8.8
Qatar	6.0	8.3	7.2	1.9	3.0	3.0	28.2	17.7	9.3	5.4	2.4	0.5
Saudi Arabia	6.8	6.2	7.3	4.0	6.0	8.0	24.2	15.7	11.2	14.2	4.6	-0.7
South Africa	2.4	2.8	3.1	5.7	5.9	5.3	-6.0	-5.7	-5.5	-5.0	-5.2	-5.0
Tanzania	6.4	6.8	7.0	16.1	9.0	8.8	-11.9	-10.2	-11.5	-5.4	-5.0	-5.6
UAE	2.1	4.6	4.9	1.0	1.3	1.5	3.7	5.9	8.1	NA	NA	NA
Uganda	4.0	4.7	5.5	14.7	5.6	5.5	-11.0	-11.7	-11.5	-5.5	-5.2	-4.5
Zambia	6.5	6.9	7.5	6.6	7.2	7.4	-3.4	0.5	3.1	-4.3	-3.5	-3.3
Total	4.7	5.2	5.5	4.5	4.7	4.8	2.1	1.4	0.9	-1.8	-2.1	-2.4

* Note: In India, policymakers look at the wholesale price index. Sources: National sources and Citi Research

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

Robert Crossley
(44 20) 7986-9255
robert.crossley@citi.com

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

Sovereign Ratings Outlook

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 41. 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+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg W)	Aa1 ↓
Canada	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Japan	AA-	Neg	AA- (Neg)	A+ ↓	Aa3	Stable	Aa3	A1 ↓
Germany	AAA	Stable	AAA	AA+ ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
France	AA+	Neg	AA+ (Neg)	AA ↓	Aa1	Neg	Aa1 (Neg)	Aa2 ↓
Italy	BBB+	Neg	BBB+ (Neg)	SD* ↓↓↓↓↓	Baa2	Neg	Baa2 (Neg)	C* ↓↓↓↓↓
Spain	BBB-	Neg	BBB- (Neg)	SD* ↓↓↓↓↓	Baa3	Neg	Baa3 (Neg)	C* ↓↓↓↓↓
Austria	AA+	Stable	AA+	AA ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Belgium	AA	Neg	AA (Neg)	AA- ↓	Aa3	Neg	Aa3 (Neg)	A1 ↓
Finland	AAA	Stable	AAA	AA+ ↓	Aaa	Stable	Aaa	Aaa (Neg)
Greece	B-	Stable	B-	SD* ↓↓↓↓↓	C		C	C*
Ireland	BBB+	Stable	BBB+	BBB+	Ba1	Neg	Baa3 ↑	Baa2 ↑↑
Netherlands	AAA	Neg	AAA (Neg W)	AA+ ↓	Aaa	Neg	Aaa (Neg W)	Aa1 ↓
Portugal	BB	Stable	BB (Neg)	SD* ↓↓↓↓↓	Ba3	Neg	Ba3 (Neg)	C* ↓↓↓↓↓
UK	AAA	Neg	AA+ ↓	AA+ (Neg)	Aa1	Stable	Aa1	Aa1 (Neg)
Switzerland	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Sweden	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Denmark	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Norway	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa

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

* Based Citi economists' longer term (2015-2017) view, Citi expects Greece and Portugal to remain sub-investment grade in coming years, and for Italy and Spain to fall to sub-investment grade ratings, and this may well include a period of "selective default" as determined by the rating agencies around the time of debt restructuring. Following the restructuring, we expect such sovereigns to attain a mid sub-IG rating.

Expected Ratings Issues

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

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

Recent comments by rating agencies are a reminder that sovereign specifics remain an important component regarding the trajectory of credit worthiness. In many cases, ratings have been affirmed and credit positives and negatives acknowledged. The major change since we last published was the "upgrade" in Portugal's BB outlook by S&P which was moved from "Negative Outlook" to "Stable" (6 March). Broadly, we do not expect any significant change in European ratings in the near-term (with the exception of Ireland and the UK), albeit medium term risks remain abundantly clear. However, if Cyprus were to leave the euro area, this would probably trigger ratings reviews of all EMU sovereigns, in the same way that widespread fears of Grexit did lead to general EMU-wide ratings reviews in Dec 2011 / Jan 2012.

Italy: The political gridlock in Italy, almost a month after the election, suggests risks for sovereign rating downgrade have increased recently. Fitch has already cut the rating for Italy by one notch to BBB+, although it just brought the rating in line with the other rating agencies. However, chances have increased that no stable government can be formed following the inconclusive electoral outcome, suggesting new elections may be called for either June or more likely October. Prolonged political instability and lack of strong leadership make it less likely that much-needed structural reforms are passed. Moreover, political uncertainty may work as an additional headwind on the already very weak economy. Signs of a longer-than-anticipated political stalemate and/or deepening of the recession create in our view downside risks on the Italian rating in coming months.

Portugal: S&P removed the Negative Outlook on Portugal on 6 March and now rates the sovereign BB Stable. This was driven by S&P's expectation that European lenders would loosen terms on bailout loans and that the Troika would adjust Portugal's consolidation path. We do not expect any significant chance to the BB Stable rating in the near-term.

Ireland: Discussions regarding maturity extensions on loans made to Portugal and Ireland were also commented on by Moody's who stated this was a "credit positive". We believe Moody's will upgrade Ireland's rating from Ba1 to Baa3 (IG) this year. S&P has already stabilized its BBB+ rating on Ireland, largely due to the recent promissory note deal and the likely impact it would have on Ireland's debt metrics. From Citi's point of view, Ireland's fiscal prospects now seem better than previously expected, and our economists no longer expect sovereign debt restructuring involving privately-held Irish government debt in the coming years (*Ireland — Steps Back to Fiscal Sustainability*).

Netherlands: Although Moody's recently noted (8th March) that "*deficit-curbing measures are positive"* they also noted that "*obstacles to fiscal consolidation remain*". Citi continues to believe the Netherland's rating will be placed on "negative watch" / "review for downgrade" in coming quarters (*Netherlands — In the Triple Dip Recession Club*)

UK: With public debt/GDP ratio set to surge further in coming years, we believe S&P (which has the UK's AAA rating on Negative Outlook) will likely follow Moody's and downgrade the UK to AA+ in coming months. Over the longer-term, given ongoing economic weaknesses and with political concerns likely to mount as the 2015 elections approaches, we believe rating agencies will put the UK's Aa1 back on Negative Outlook, indicating increased likelihood of a further downgrade in the years ahead.

Interest Rate and Bond Yield Outlook

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

The major development for European fixed income markets since we last published is clearly the decision to tax bank deposits in Cyprus and the subsequent rejection of the proposals by the Cypriot parliament. No MPs voted in favour of the measures. European policy makers have repeatedly stressed that the situation in Cyprus is a special case. In the initial Eurogroup statement (16 March), the "deposit tax" was described as a "one-off levy" and this was then reiterated on the evening of the 19 March. What was surprising (and largely the cause of the rejection by the Cypriot parliament) was the inclusion of a 6.75% levy on deposits below €100,000 because such deposits fall within the scope of the deposit guarantee scheme.

Given the nature of the Cyprus banking system, we see this decision largely as a localized event for now albeit tail risks have certainly risen (*Cyprus and implications for EMU fixed income markets*). Headline risk is likely to be generally supportive for core markets in the near term, but the reaction in peripheral markets has been relatively muted and policy markets again wish to stress this is a unique situation. Furthermore, our economists had repeatedly argued that a contribution from bank depositors in Cyprus was probably always the only feasible option to try to preserve financial sustainability (*Cyprus – Some Form of Debt Restructuring Looks Increasingly Likely*). The risks of deposit outflows have clearly risen, but the ECB stands ready to act as a lender of last resort and the unique features of the Cypriot situation should limit the "read through" to other cases in the euro area for now (*Global Economics View - The euro area recovery starts with Cyprus*).

Bad news fatigue and complacent markets

For the periphery market outlook, the "bad news fatigue" theme continues. We expect markets to continue trading in a complacent fashion for now. Recent trading patterns support this: on news of the Cyprus measures, BTP and Bono yields understandably widened amid the general risk-off mood (18 March), but spreads to Germany soon recovered. The reaction to the failure to ratify proposals was also relatively muted. There has been no spike in trading levels akin to a systemic shock.

Italian politics still the dominant driver for BTPs

We are therefore making few changes to our yield forecasts this month and continue to see unfolding political developments in Italy as a dominant driver of BTP yields in the months ahead. Political brinksmanship, the prospect of unstable coalitions and the possibility of fresh elections remain key concerns for both markets and foreign investment. Even taking into account anticipated demand for BTPs from domestic investors, we see significantly wider averages for 10yr spreads in Q2. The spread is likely to move by more than just the BTP yield, being driven by both higher peripheral yields and lower Bund yields as was the case over March.

We see the 10yr BTP/Bono spread eventually narrowing to flat

Our forecast average for the BTP-Bund spread remains 420bp over Q2 with 10yr BTPs trading comfortably around the 5.5% level. We also continue to see the 10yr BTP-Bono spread eventually narrowing to flat (it has already traded at 9bp and has clearly broken from the 100bp-60bp range established in H2 last year). Previously we had ascribed a higher probability to Spain requesting OMT assistance first. In the new landscape we think the focus remains on Italy, with Spain moving in sympathy, but less than one for one. Ultimately we still expect the official machinery to keep 10yr spread averages around 400bps for both Italy and Spain. Away from the periphery, our forecasts continue to reflect ongoing deterioration in the Netherlands, and general widening in spreads to Bunds in both OATs and RAGBs.

Our economists continue to expect the ECB to cut in Q2, but for a second cut now to come in Q4 (previously Q3)

In terms of core rates, we continue to expect 10yr Bunds to trade around 1.4% on average in Q2, but we have revised down our Q3 average expectation from 1.75% to 1.65%. This reflects the slightly flatter profile in Citi's policy rate expectation. On a cross market basis, we continue to advocate long core Europe vs US positions over the longer-term given the increasing divergence in economic prospects. We have made no significant changes to our UK forecasts.

Figure 42. Interest Rate and Bond Market Forecasts as of 20 March 2013

		Quarterly Average					
	Current	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14	3Q 14
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Libor	0.28	0.30	0.35	0.40	0.50	0.60	0.70
2 Year Treasury Yield	0.25	0.30	0.40	0.50	0.60	0.75	0.85
5 Year Treasury Yield	0.81	0.95	1.10	1.25	1.55	1.75	1.95
10 Year Treasury Yield	1.96	2.05	2.30	2.60	2.85	3.00	3.20
30 Year Treasury Yield	3.18	3.30	3.60	3.95	4.15	4.30	4.45
2-10 Year Treasury Curve	171	175	190	210	225	225	235
2 Year Swap Spread (Swap Less Govt), bp	14	15	17	20	20	20	20
10 Year Swap Spread (Swap Less Govt), bp	10	8	7	5	0	0	0
30 Year Swap Spread (Swap Less Govt), bp	-13	-20	-20	-25	-30	-35	-35
30 Year Mortgage Yield	3.69	3.75	3.90	4.05	4.35	4.45	4.60
10 Year Breakeven Inflation	257	255	250	245	240	240	240
Euro Area							
Policy Rate	0.75	0.50	0.50	0.25	0.25	0.25	0.25
Overnight Rate (EONIA)	0.07	0.05	0.05	0.03	0.03	0.03	0.03
3-Month Libor	0.20	0.10	0.10	0.05	0.05	0.05	0.05
2 Year Schatz Yield	0.00	0.05	0.05	0.00	0.05	0.05	0.05
5 Year Bobl Yield	0.35	0.50	0.50	0.50	0.55	0.60	0.60
10 Year Bund Yield	1.36	1.40	1.65	1.55	1.35	1.55	1.55
30 Year Bund Yield	2.23	2.10	2.35	2.20	2.20	2.30	2.30
2-10 Year Bund Curve	136	135	160	155	130	150	150
10 Year BTP-Bund Spread	330	420	350	400	400	400	400
10 Year Bono-Bund Spread	364	450	380	400	400	400	400
2 Year BTP-Schatz Spread	186	240	240	240	240	240	240
2 Year Bono Schatz Spread	234	250	250	250	250	250	250
10 Year OAT-Bund Spread	66	70	80	100	100	100	100
10 Year Swap Spread (Swap Less Govt.), bp	31	25	20	35	45	45	45
10 Year Breakeven Inflation	170	180	190	185	180	185	185
Japan							
Policy Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.16	0.15	0.15	0.15	0.15	0.15	0.15
2 Year Treasury Yield	0.04	0.05	0.05	0.10	0.10	0.05	0.05
5 Year Treasury Yield	0.12	0.15	0.15	0.20	0.20	0.15	0.15
10 Year Treasury Yield	0.62	0.70	0.70	0.90	1.00	0.90	0.90
30 Year Treasury Yield	1.75	1.90	1.90	2.05	2.15	2.05	2.05
2-10 Year Treasury Curve	58	65	65	80	90	85	85
2 Year Swap Spread (Swap Less Govt.), bp	18	15	15	20	20	18	18
10 Year Swap Spread (Swap Less Govt.), bp	12	8	8	10	12	10	10
UK							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-Month Libor	0.51	0.51	0.52	0.52	0.52	0.55	0.55
2 Year Treasury Yield	0.20	0.25	0.45	0.35	0.25	0.35	0.35
5 Year Treasury Yield	0.74	0.85	1.15	1.10	1.00	1.10	1.10
10 Year Treasury Yield	1.85	2.10	2.40	2.40	2.30	2.45	2.45
30 Year Treasury Yield	3.18	3.40	3.55	3.55	3.50	3.60	3.60
2-10 Year Treasury Curve	165	185	195	205	205	210	210
10 Year Swap Spread (Swap Less Govt.), bp	-1	5	0	10	20	10	10
10 Year Breakeven Inflation	314	325	355	345	340	345	345
Australia							
Policy Rate	3.00	2.75	2.75	2.75	2.75	3.00	3.50
3-Month Libor	3.17	2.90	2.90	3.00	3.00	3.20	3.70
2 Year Treasury Yield	2.96	3.00	3.05	3.15	3.20	3.40	3.80
5 Year Treasury Yield	3.17	3.20	3.25	3.40	3.46	3.60	3.95
10 Year Treasury Yield	3.55	3.50	3.65	3.80	3.90	4.00	4.25
2-10 Year Treasury Curve	59	50	60	65	70	60	45
10 Year Swap Spread (Swap Less Govt.), bp	62	58	60	65	70	75	75

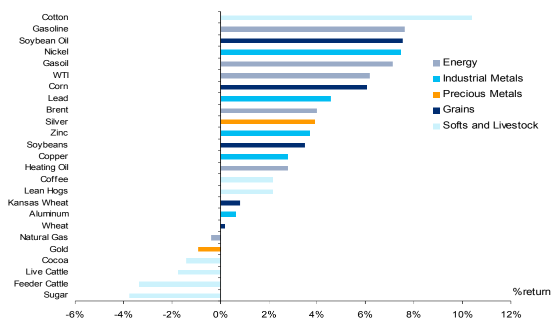
Source: Citi Research

Commodity Market Outlook

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

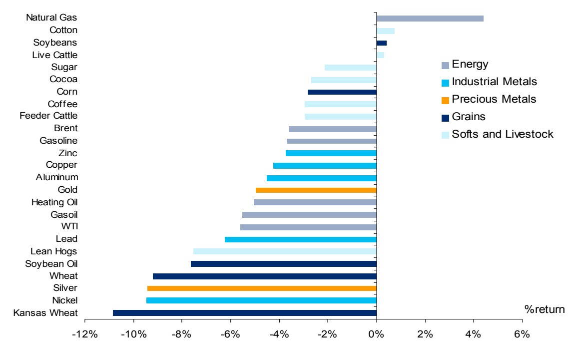
There is nothing like two pictures to tell the story of the first two-thirds of 1Q 13. Commodities started the year with a bang, with most of the most liquid traded commodities joining other asset classes at a gallop, reflecting optimism that global growth was resuming on a solid basis, led by the two largest economies, the US and China. There was even talk of commodity supercycle redux. But February gave back everything earned in January, and then some as length was drained from investments under management, whether in passive indices or physically backed ETFs, and as fundamentals led to the largest sell-offs in net length in energy instruments since 2H 08. Total net withdrawals in passive commodity indices have fallen by $5.8-billion through end-February 2013, while net redemptions in physically backed ETFs have fallen by more than $5 billion including over $4 billion of which has been in gold.

Figure 43. Jan 13 Commodity Price Returns



Sources: Bloomberg, Citi Research

Figure 44. Feb 13 Commodity Price Returns



Sources: Bloomberg, Citi Research

March began much as the year was expected to begin. Commodities are confronting downward pressure. Wherever non-commercial net-length has grown (and in the case of oil it was reaching record levels), it has sold off. Virtually all forward curves for commodities have weakened. The bell-weather time spreads in Brent, the most liquid commodity contract in the world, has fallen since March began from around $1 per barrel 1st to 2nd month to half that level, a sign of a weakening oil market. Virtually all base metals forward curves are in contango, a mirror image of where they were during the height of the super-cycle in commodities. In all cases this weakening reflects higher supply and weaker demand than had been hoped for in January. Even as Citi raises its expectations of global growth a bit to 2.7% this year and 3.1% in 2014, growth is being dragged down by lower expectations in China, where commodity demand is falling faster than the new equilibrium of GDP growth in the 7-8% range, as the commodity intensity of the economy continues to fall and as indigenous and well as global supplies grow.

ICE Brent and NYMEX WTI prices were stronger in Q1 than Citi had anticipated. Citi's original Q1 price decks were for WTI to fall on average to $85 and Brent to $105. The year opened with stronger prices, propelled by a 1-million b/d cut in Saudi production, higher Chinese demand growth than Citi had projected, and a weaker US$. Even so prices remained close to their 2012 annual averages of $111.50 Brent and $94.50 WTI. For the first two months Brent averaged close to $114 while WTI was slightly above the 2012 average. The one Citi call that was

close to mark was the projection of a Q1 Brent-WTI spread of $20 per barrel, just pennies above the actual average differential for the first two months.

The Citi bear case for oil this year remains intact, March opened with greater weakness. Brent has been trading under $110 a barrel, and the spread between the first and second month is rapidly collapsing, reflecting greater weakness in the North Sea market. WTI is trading slightly below the level at which it opened the year, and crude oil inventories have been growing in counter-seasonally. Overall signs are for global supply to outpace demand by some 50%, with global demand languishing at fewer than 1-million barrels a day. At current levels of production the call on OPEC remains substantially lower than current OPEC production, even though the Kingdom of Saudi Arabia has pulled production in by 1-million b/d.

Citi expects 2Q 13 to be the weakest month of the year for oil markets, as product demand reaches its lowest point of the year, dropping perhaps by over 4-million b/d from last month, and higher refinery maintenance should mean weaker crude prices. Saudi Arabia looks likely to pump more oil into markets counter-seasonally reinforcing market weakness. China's crude oil imports have grown yoy as refinery throughputs have risen to help pay for last year's 1-million b/d of capacity growth, but the result will be growing inventories and growing exports of light and middle distillate products. And the dollar looks likely to strengthen, creating a head wind for all commodities. New takeaway capacity from surging mid-continent US production should see the Brent-WTI spread weaken perhaps by 50% with the spread moving toward $10 per barrel, before widening again later in the year.

Citi's bearish scenario continues to play out in the physical markets, with Brent time spreads weakening, Dubai slipping into contango and Saudi OPSPs to Asia weakening, reflecting market share concerns. In products despite a robust turnaround season, distillates have been getting weaker. The stand-out part of the barrel has been gasoline, in line with Citi's expectations.

Colder-than-expected weather in March was partially responsible for triggering a run-up in US natural gas prices. Last month using the forward curve and weather forecasts then, prices had been somewhat under-valued based on projected inventory levels in Oct'13 just before the start of next winter. The natural gas market typically looks to these so-called end-of-season storage levels to gauge how much gas should be injected ahead of winter - the peak demand season. Lower prices induce more gas-fired generation in the power sector, thereby tightening the supply-demand balances, and vice versa. In mid-February, the Oct'13 inventory level was projected to be 3.88-Tcf based on prices and weather forecasts then. This storage level was below the 4-Tcf threshold that the market seems to target. Hence, prices should have risen to reduce gas demand for electricity generation. In addition, the current weather forecast for March turned out to be 6% colder than the month-ago forecast, so that gas demand became stronger than initially expected, tightening the supply-demand balance. This partly triggered the price run-up. However, based on the near-term weather outlook and current forward curve, which has moved up vs. a month ago, the latest projected Oct'13 storage level has risen to above 4.0-Tcf. This suggests that prices might have reached the top-end of the price range but the market tends to overshoot both on the upside and downside. But if the coming summer is as hot as last year's summer, when Jul'12 temperatures were 20% above the 10-year average, prices could edge higher. In fact, some seasonal forecasts are pointing to a hot summer ahead.

Asian LNG prices fell from $19/MMBtu last month to $16/MMBtu, as consumption declined sharply after the peak demand period in winter. Asian utilities appear to have sufficient contracted supply post-winter just as gas demand falls going into

spring. Buying interest could re-emerge ahead of summer. Until then, utilities may not be actively entering the market to bid for LNG cargoes. Some utilities even have sufficient number of cargoes contracted through summer, lessening the need to buy spot cargoes until winter. European prices surged mostly on temporary factors. With the long term decline of UK production, the supply shortage in Europe was exacerbated by strong Asian demand earlier taking LNG cargoes away from Europe and Norwegian production problems amid a cold winter. The cold winter also drew down storage further. However, falling seasonal demand should ease the supply-demand tightness, just as Asian demand also weakens seasonally. It is important to note that temporary surges in spot-traded gas prices do not mean that the traditional oil-indexation of gas prices is a superior system. Changes in spot-gas prices in fact better reflect the underlying fundamentals of the gas market than a price that is derived from the fundamentals of another commodity. Low gas demand was reflected in spot-gas prices traded largely below oil-indexed prices for much for the year, until tightness in the supply-demand balance prompted a price rise.

Seaborne thermal coal prices could face continued downward pressure on lower Chinese import demand and the resolution of a strike in Colombia. In addition to high Chinese inventories post-winter, prices of domestically produced Chinese coal have also been falling, just as power demand growth in China is slowing. The strike in Colombia was supposed to tighten the market and leave stockpiles low in Europe, but with coal stockpile healthy at Colombian ports, exports should resume close to normal after the post-strike logistics are sorted out. European power demand remains very weak on on-going macro weakness. The market also awaits the outcome of price negotiations between major producers and Japanese utilities.

Seaborne iron ore prices have slumped in recent days as confidence in steel fundamentals continued to erode; from a peak of around $160/t in Feb the Platts index is now around $140mt. China steel mills had stepped up crude steel production at a run rate above 800mt pa in anticipation of a strong construction and a pick up in prices. However by March, with the anticipated uptick in construction activities not coming through and conversion margins in the red, we are starting to see some curtailment of production. Importantly Citi is forecasting a delivered price of $113/t in the second half, based on a view of Chinese destocking and additional iron ore supply entering the market. Citi are forecasting an additional 26mt of supply entering the market, principally from Australia.

Concerns over the outlook for China have kept a lid on base metals prices. Recent Chinese Government pronouncements regarding the property market add to the sense that manufacturing growth will be muted in 2013, leading to a reassessment of China's metals demand outlook. A number of cities have already tightened controls on housing loans, while cities such as Zhejiang, Jiangsu and Guangdong have capped the size of loans available to home purchasers using their local housing provident funds in order to reduce property speculation. The size of minimum down payment deposits on first and second homes are likely to rise to 60% and 70% respectively while mortgage rates on second properties will be no lower than 1.3 times the benchmark interest rate, up from the current 1.1 rate, which will significantly increase monthly mortgage costs. Such measures appear to be just the first wave in a raft of measures to control property markets with strong rumors of a country wide roll out of the current pilot property taxes seen in Shanghai and Chongqing. Such measures will act as a significant disincentive in terms of property investment and therefore residential construction activity, thus in turn reducing fabrication demand growth for copper and other metals.

At the same time, it is our view that China has a significant over-availability of copper units, built up during 2012 in particular. Indeed, we estimate that primary and

secondary copper unit availability in China in 2012 was 10.96 million tons, comprising 3.4 million tons of primary copper imports, 1.6 million tons of copper contained in scrap, and domestic refined production of 5.96 million tons. In comparison to supply, estimates of real 2012 Chinese copper consumption (including direct use by refiners of copper scrap) by analysts Wood Mackenzie at 9.6 million tons, suggest in simplistic terms, an over availability of copper units of between 1 and 1.5 million tons last year in China. As over supply of copper in China grew last year, so did the re-export of metal, as a reverse 'arb' between Shanghai (SHFE) and LME markets was in place for much of 2012. Indeed, Chinese primary copper exports rose by 40% y/y in 2012, 215,000 tons, as traders took advantage of SHFE-LME margins. The short-term prospect for copper prices is less than positive, with the combination of notably weaker than expected Chinese manufacturing levels, strong levels of Chinese primary copper exports, rising LME and Shanghai Exchange (SHFE) copper inventory, positive quarterly mine production results and US dollar strength weighing on sentiment.

After two years of price spikes that have particularly persisted since 2H'12, US and global grain prices are poised to ease—perhaps substantially. For corn and soybeans, prices are projected to fall 20-40% by the end of this year and into 2014 following the worst drought in nearly a century across the US farm-belt last year. To be sure, the US remains an important breadbasket for world grain markets with some 1/3 of global corn and soybean output and 1/4 of its wheat exports. Combined with Latin America, the Eastern hemisphere essentially supplies global row crop consumers their feedstock for animal grazing, industrial use and biofuels production. The staple foodstuff small grains — wheat and rice — are grown globally and supply is expected to rebound substantially in the back-half of this year and for the 2014 marketing cycle with output rebounds in key producing blocs of Australia and Black Sea for wheat amid another surplus year for rice driven by growth in Southeast Asia. US benchmark prices are forecast to remain stable or lower substantially which should help reduce local cash prices and be a boon for emerging markets that have been faced with volatile and elevated grain and oilseed prices over the past few years. Weather remains the key unknown but for now we expect supply to normalize allowing global stocks to rebuild.

Figure 45. Commodities Price Forecasts*

		Point Prices													
		0-3M	6-12M	5Y Cyclical	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013E	Q2 2013E	Q3 2013E	Q4 2013E	2013E	2014E
Energy															
NYMEX WTI	USD/bbl	85.0	85.0	81.0	103.0	93.3	92.2	88.2	94.1	85.0	85.0	85.0	85.0	85.0	83.0
ICE Brent	USD/bbl	105.0	97.0	85.0	118.4	108.8	109.4	110.1	111.7	105.0	95.0	100.0	95.0	99.0	93.0
Henry Hub Natural Gas	USD/MMBtu	3.50	3.70	N/A	2.47	2.27	2.87	3.54	2.83	3.50	3.50	3.60	3.70	3.55	4.10
Base Metals															
LME Aluminum	USD/MT	2,100	2,125	2,200	2,216	2,019	1,944	2,017	2,049	2,100	2,050	2,100	2,150	2,100	2,175
LME Copper	USD/MT	8,160	7,850	6,200	8,314	7,833	7,711	7,921	7,945	8,160	8,000	7,800	7,900	7,965	7,775
LME Lead	USD/MT	2,150	2,075	2,200	2,118	1,987	1,984	2,200	2,072	2,250	2,050	2,000	2,150	2,115	2,200
LME Nickel	USD/MT	19,000	19,775	20,000	19,721	17,228	16,383	17,036	17,592	19,000	21,000	19,000	20,550	19,890	22,725
LME Tin	USD/MT	25,000	22,500	18,600	22,986	20,619	19,281	21,547	21,108	23,500	22,500	22,000	23,000	22,750	22,875
LME Zinc	USD/MT	1,950	2,090	2,100	2,040	1,933	1,902	1,979	1,963	2,050	2,000	2,080	2,100	2,060	2,125
Precious Metals															
COMEX Gold	USD/T. oz	1,700	1,650	1,050	1,691	1,613	1,654	1,718	1669	1705	1685	1665	1650	1675	1655
Silver	USD/T. oz	33	30	16.5	32.6	29.6	29.9	32.6	31.2	32.5	31.5	30.0	30.0	31.0	26.5
Platinum	USD/T. oz	1,675	1,715	1,531	1,604	1,505	1,500	1,600	1552	1675	1700	1700	1725	1700	1775
Palladium	USD/T. oz	725	810	680	683	630	613	653	645	725	755	790	825	775	925
Bulk Commodities															
Hard Coking Coal (benchmark Asia)	USD/MT	165	180	200	235	215	225	170	211	165	170	180	180	174	213
Thermal Coal Asia (NEWC)	USD/MT	95	103	105	113	88	88	86	94	95	95	100	105	99	111
Iron Ore Spot (TSI)	USD/MT	135	113	81	142	139	112	121	128	135	120	110	115	120	122
Agriculture															
CBOT Corn	USd/bu	725	500	N/A	641	618	783	737	695	710	700	650	515	645	500
CBOT Wheat	USd/bu	740	800	N/A	643	641	870	846	750	900	900	825	825	860	775
CBOT Soybeans	USd/bu	1,425	1,150	N/A	1,272	1,426	1,675	1,485	1,465	1,450	1,350	1,300	1,175	1,320	1150
CBOT Rice	USD/cwt	15.2	15.3	N/A	14.3	14.8	15.3	15.1	14.9	15.2	15.2	15.3	15.5	15.3	N/A
NYB-ICE Cotton	USd/lb	80	90	N/A	93	81	73	73	80	81	82	85	90	85	N/A
Sugar#11	USd/lb	20.0	20.0	N/A	24.5	21.2	21.0	19.6	21.6	21.0	21.0	21.0	21.0	21.0	N/A
ICE Coffee	USd/lb	145	155	N/A	205	171	172	152	175	145	150	150	155	150	N/A
ICE Cocoa	USD/MT	2,200	2,450	N/A	2,308	2,221	2,440	2,420	2,348	2,200	2,200	2,425	2,475	2,325	N/A

Source: Citi Research, *subject to revision

Figure 46. Citi Global Economics Team *For Informational Purposes Only*

	Name	Office Number	Email Address	Responsibilities
NEW YORK	**North America**			
	Nathan Sheets[3]	(1-212) 816-9297	nathan.sheets@citi.com	Global Head of International Economics
	Robert DiClemente[3]	(1-212) 816-7942	robert.diclemente@citi.com	Head, North America
	Peter D'Antonio[3]	(1-212) 816-9889	peter.dantonio@citi.com	U.S. Forecast
	Steven Wieting[3]	(1-212) 816-7148	steven.wieting@citi.com	Equity Themes
	Dana Peterson[3]	(1-212) 816-3549	dana.peterson@citi.com	U.S. Forecast and Canada
	Matt Dabrowski[3]	(1-716) 730-7407	matt.dabrowski@citi.com	Global Political Analysis
	Emerging Markets			
	Guillermo Mondino[3]	(1-212) 816-6499	guillermo.mondino@citi.com	Head, EM Economics and Strategy Research
	Joaquin Cottani[3]	(1-212) 816-2735	joaquin.cottani@citi.com	Head, Latin America
	Jorge Pastrana[2]	(1-212) 816-5728	jorge.armando.pastranavillegas@citi.com	Caribbean and Central America
	Camilo González García[2]	(1-212) 816-9901	camilo.gonzalezgarcia@citi.com	Argentina, Chile, Peru, Caribbean, Central America
LONDON	Willem Buiter[1]	(44-20) 7986-5944	willem.buiter@citi.com	Chief Economist
	Tina Fordham[1]	(44-20) 7986-9860	tina.fordham@citi.com	Global Political Analysis
	Ebrahim Rahbari[1]	(44-20) 7986-6522	ebrahim.rahbari@citi.com	Global Economics
	Deimante Kupciuniene[1]	(44-20) 7986-4061	deimante.kupciuniene@citi.com	Global Economics
	Antonio Montilla[1]	(44-20) 7986-3282	antonio.montilla@citi.com	Global Economics and Spain
	Western Europe			
	Michael Saunders[1]	(44-20) 7986-3299	michael.saunders@citi.com	Head, Western Europe and U.K. Coverage
	Jürgen Michels[1]	(44-20) 7986-3294	juergen.michels@citi.com	Euro Area (Germany) and ECB Specialist
	Guillaume Menuet[1]	(44-20) 7986-1314	guillaume.menuet@citi.com	Euro Area (France, Belgium, Netherlands)
	Giada Giani[1]	(44-20) 7986-3281	giada.giani@citi.com	Euro Area (Italy,Spain, Greece, Portugal)
	Tina Mortensen[1]	(44-20) 7986-3284	tina.mortensen@citi.com	Nordics
	Ann O'Kelly[1]	(44-20) 7986-3297	ann.okelly@citi.com	Europe
	Emerging Markets			
	David Lubin[1]	(44-20) 7986-3302	david.p.lubin@citi.com	Head, Emerging Markets and CEEMEA
	David Cowan[1]	(44-20) 7986-3285	david.cowan@citi.com	Africa
	Gina Schoeman[1]			South Africa
TOKYO	Kiichi Murashima[2]	(813) 6270-4980	kiichi.murashima@citi.com	Head, Japan
	Naoki Iizuka[2]	(813) 6270-4997	naoki.iizuka@citi.com	Japan
SYDNEY	Paul Brennan[15]	(612) 8225-4899	paul.brennan@citi.com	Head, Australia, New Zealand
	Josh Williamson[15]	(612) 8225-4904	josh.williamson@citi.com	Australia, New Zealand
BEIJING	Enjiang Cheng[10]	(86) 10 5937-6038	enjiang.cheng@citi.com	China
BOGOTA	Munir Jalil[12]	(57) (1) 639-4195	munir.jalil@citi.com	Colombia, Venezuela
BUDAPEST	Eszter Gargyan[7]	(36) 1 374-5559	eszter.gargyan@citi.com	Hungary
DUBAI	Farouk Soussa[1]	(971) (4) 509-9750	farouk.soussa@citi.com	Gulf, Middle East, Levant
HONG KONG	Johanna Chua[4]	(852) 2501-2357	johanna.chua@citi.com	Head, Emerging Asia, Sri Lanka, Vietnam
	Minggao Shen[4]	(852) 2501-2485	minggao.shen@citi.com	China
	Shuang Ding[4]	(852) 2501-2769	shuang.ding@citi.com	China
	Adrienne Lui[4]	(852) 2501-2753	adrienne.lui@citi.com	Hong Kong, Mongolia, Taiwan
ISTANBUL	Ilker Domac[6]	(90) 212 319-4623	ilker.domac@citi.com	Turkey, Romania, Balkans
	Gultekin Isiklar[6]	(90) 212 319-4915	gultekin.isiklar@citi.com	Turkey, Romania, Balkans
JAKARTA	Helmi Arman[21]	62-21-5290-8960	helmi.arman@citi.com	Indonesia
MANILA	Jun Trinidad[17]	(63) (2) 894-7270	jun.trinidad@citi.com	Philippines, Thailand
MEXICO CITY	Sergio Luna Martinez[4]	(52) (55) 2226-6799	sluna@banamex.com	Mexico
MOSCOW	Natalia Novikova[18]	(7) 495 643 1507	natalia1.novikova@citi.com	Russia, Kazakhstan, Ukraine
MUMBAI	Rohini Malkani[8]	(91) 22-6631-9876	rohini.malkani@citi.com	India
PRAGUE	Jaromir Sindel[13]	(42) (02) 3306-1485	jaromir.sindel@citi.com	Czech Republic, Slovakia
SAO PAULO	Marcelo Kfoury[19]	(55) (11) 4009-3470	marcelo.kfoury@citi.com	Brazil
SEOUL	Jaechul Chang[16]	(82) 2 2077-4160	jaechul.chang@citi.com	Korea
SINGAPORE	Kit Wei Zheng[20]	(65) 6657-5079	kit.wei.zheng@citi.com	ASEAN, Singapore, Malaysia
WARSAW	Piotr Kalisz[7]	(48) (22) 692-9633	piotr.kalisz@citi.com	Head, CEE and Poland
	Cezary Chrapek[7]	(48) (22) 692-9421	cezary.chrapek@citi.com	Poland

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

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