

## S&P downgrades Italy, ECB struggles with its “extended period”

Summary | Today's News in Detail | Latest issues of Sovereign Debt Crisis Update | Macroeconomic Forecasts | Recent Research

### Summary

**Italy downgraded by one notch to BBB by S&P** — the poor growth outlook and a renewed deterioration in the fiscal deficit were key drivers, raising doubts about debt sustainability. Moody's rates Italy Baa2, while Fitch is at BBB+. The outlook remains negative, implying one-in-three chances that another downgrade occurs in the next 12-18 months. Comment: the downgrade was quite an unexpected move, surely an earlier move relative to our expectations. We think that relaxation of fiscal targets will do little to boost GDP growth but will re-ignite concerns on public debt sustainability.

**ECB struggles with its “extended period” concept** — ECB's Asmussen responding to a question on what an extended period meant said that Mario Draghi had indicated that *“it is not six months, it not 12, it goes beyond”*. The ECB later issued a statement indicating *“no guidance was given as to the exact length of this period of time and it was not Mr Asmussen's intention to do so”*. Comment: we think an extended period of time refers to 18-24 months. Expect some clarification at the 1 Aug ECB meeting.

**EC draft on single resolution mechanism for euro area banks due today** — The German press suggests that the draft will present a resolution board made up of representatives of the EC, ECB and national authorities, but that the EC would have the power to take decisions. Both the fund and the board have a 2015 target date.

**IMF on the euro area** — recession continues in 2013 (-0.6%), but some recovery is seen in 2014 (+0.9%). Both estimates were revised down by 0.2ppt and 0.1ppt, respectively, due to *“expected delays in policy implementation in key areas, but also due to base effects from the delayed recovery in 2013”*.

**Portugal's opposition parties increase pressure on President to call early elections** — the Socialist party argued that Portugal needs to negotiate a second bailout programme because of the failure of the current austerity policies. The President is due to announce the results of his consultations today, and to give support to the new reshuffled government, with junior coalition party CDS given a more prominent role.

**Spain: IMF sees no recovery in 2014 GDP** — revised down from 0.7% to 0.0%, one of the cuts unveiled on Tuesday, due to the inclusion of new fiscal measures contained in the Stability Programme in April. Bank of Spain governor Linde noted he is looking at boosting banks' capital via different accounting rules for deferred tax assets.

---

10 July 2013

---

**Guillaume Menuet**  
+44-20-7986-1314

**Giada Giani**  
+44-20-7986-3281

**Ebrahim Rahbari**  
+44-20-7986-6522

---

Economics

---



---

Western Europe

---



---

Industrialised G7 Countries

---

### Recent Research

#### Euro Economics Weekly — France a Year On: How Much Progress?

##### Western Europe

President François Hollande has been in office for a little more than a year. In our view, while stability of French deposit base and relative healthiness of its banking system mean that credit availability will not be an obstacle to GDP growth, the missing ingredients are confidence and greater visibility with respect to the government's policies, but also the continuing focus on sizeable budget consolidation. Unless those issues are addressed, we fear that French growth will disappoint.

**Guillaume Menuet** +44-20-7986-1314

#### ECB — Unanimous Governing Council Enacts Forward Guidance

##### Western Europe

The ECB left its key interest rates unchanged, matching consensus expectations. What surprised us and

---

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

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

### France: modest public sector investment programme and more bank capital

— PM Ayrault said France will use further sales of state shares in firms to help finance a new €12bn (0.6% of GDP) public investment drive over the next decade in order to limit its impact on public finances. CDC to transfer up to €25bn of savings to the banks.

**Data — German CPI inflation** confirmed at 1.8% YY in June, while **French April industrial production** fell by only 0.4% MM (+0.4% YY).

## Today's News in Detail

**Italy downgraded by one notch to BBB by S&P, on poor growth outlook and renewed deterioration in the fiscal deficit.** This brings the S&P rating in line with Moody's, one notch below Fitch, and only two notches away from the sub-investment grade status. The outlook remains negative, implying one-in-three chances that another downgrade occurs in the next 12-18 months. S&P says they may cut the rating again if *"the government cannot implement policies that would keep fiscal indicators from deteriorating beyond our current expectations"*. S&P projects the government deficit at 2.9% of GDP at the end of this year and at 2.5% in 2014. The rationale behind the rating cut rests on further weakening of the economic outlook due to an *"impaired monetary transmission mechanism"* and prospective budgetary slippages. These factors raise doubts about debt sustainability: S&P argues that Italy would need to achieve a primary surplus of 5% of GDP (2.5% in 2012) to achieve debt stabilisation. The Italian Treasury replied to the S&P rating cut by saying that the decision is backward looking, and does not take into account the recent government decisions. However, PM Letta admitted last night that Italy remains under strict surveillance, given the high level of public debt. Comment: the downgrade was quite an unexpected move, surely an earlier move relative to our expectations. It once again draws attention to how the euro sovereign debt crisis is adding to an already-weak GDP growth performance. Negative (or weak) GDP growth outlook is the crucial factor to assess public debt sustainability. The rating cut is also a reminder to the Italian government of the little fiscal room available, after it decided to partly unwind the fiscal tightening agreed by the previous technocrat government. Delaying (and possibly suspending) planned tax hikes without credible plans for spending cuts to cover for the shortfall has probably been the trigger for the S&P rating action. This is in sharp contrast with recently more relaxed attitude on Italy's fiscal problems by the EU Commission (recently deciding to close the Excessive Deficit Procedure) and the IMF, after the 3% fiscal deficit was achieved last year. We think that some relaxation of the fiscal targets is unlikely to have any positive effect on GDP growth (more likely to be saved than spent – see next story) but it will re-ignite concerns on public debt sustainability.

### Italy – household saving rate jumps in Q1 13 to 12.6% - highest since 2010.

Sector accounts data released yesterday showed disposable income grew by 1.0% QQ in 1Q, reducing the contraction in the annual rate from -3.1% YY in Q4 12 to -0.1% YY in Q1 13 (least negative reading since Q4 11). Real disposable income, although slightly up in Q1, remains below the 1999-level, when records began. Comment: The rise in disposable income was probably driven by a less negative fiscal drag, as well as by improved capital income, amid continued deterioration in labour income. The rise in disposable income allowed for a rebound in the saving rate, after falling to record-low levels in 2012. Any further relaxation in the fiscal stance is more likely to be saved than spent, in our view.

[>> Back to the Top](#)

investors most was the unanimous decision by the Governing Council to enact a new 'forward guidance' framework without having exhausted the existing room for manoeuvre on rates. The introductory statement indicates that the GC expects "the key interest rates to remain at present or lower levels for an extended period of time". We maintain our forecast of a 25bp rate cut in the refi rate in 4Q-13.

**Guillaume Menuet** +44-20-7986-1314

## Euro Area — Portugal's Political Crisis

### Western Europe

The resignation of the leader of the government coalition's junior party CDS-PP, Paulo Portas, from his position as foreign minister, a day after the departure of the technocrat Finance Minister Vitor Gaspar, appears to have put the Portuguese government on the verge of collapse. Even if the current fracture is recomposed in the next few days, the difficult political decisions of the coming months will likely keep the risk of a coalition break-up very high.

**Giada Giani** +44-20-7986-3281

## UK Economics Weekly — The MPC's Declaration of (Monetary) Independence

### Western Europe

Somewhat appropriately, the MPC chose July 4 - US Independence Day - to stress the UK's independence in monetary policy from the rising trend in US rate expectations. Even more strikingly, the MPC did so by adopting from across the Atlantic the concept of forward guidance. The MPC's statement is a clear sign that the Committee regard the recent rise in UK rate expectations as overdone and harmful to the UK economy's prospects, and also is a fairly clear hint that the MPC are likely to initiate forward guidance at the August meeting or soon after.

**Michael Saunders** +44-20-7986-3299

## UK — MPC Set the Stage for Guidance

### Western Europe

Unusually, the MPC accompanied their "no-change" decision with a statement. The MPC stress that recent economic

**ECB's Asmussen on forward guidance** – ECB Executive Board Member Jörg Asmussen responding on Wednesday to a question on what an “*extended period*” meant said that Mario Draghi had indicated that “*it is not six months, it not 12, it goes beyond*”. The ECB later issued a statement indicating that “*Mr. Asmussen aimed to confirm the unanimous decision of the Governing Council on forward guidance that covered an 'extended period of time'*” adding that “*no guidance was given as to the exact length of this period of time and it was not Mr Asmussen's intention to do so*”. On the topic of further interest rate cuts and additional non-standard measures, Mr. Asmussen replied that he would not rule anything out, but argued that there was no need for further action as things stand. Mr. Asmussen noted that the Governing Council's aim was to clearly anchor expectations of markets for the foreseeable future, according to Reuters. Comment: while investors interpreted those Asmussen comments as being dovish, the subsequent ECB statement illustrates how sensitive the subject of forward guidance is for the Governing Council. So what's new? Not very much, in our view. President Draghi had told us that an extended period of time was not 6 or 12 months, hence longer (we think 18-24 months), the ECB has given us a policy bias directed towards lower rates (including the possibility of negative depo) and Mr. Coeuré and colleagues had been signalling for some time that persistent accommodation is warranted given the (dis)inflation outlook. Nevertheless, this denial will force President Draghi to clarify the ECB's position at the 1 August Governing Council meeting.

[>> Back to the Top](#)

**EC draft of single resolution mechanism for euro area banks due today:** The European Commission (EC) is due to finally release its draft proposal on the so-called single resolution mechanism for euro area banks today. According to *Frankfurter Allgemeine Zeitung*, *Handelsblatt* and *Süddeutsche Zeitung*, the draft will suggest a resolution board made up of representatives of the EC, ECB and national authorities, but that the EC would have the power to take decisions. The draft also suggests creating a single resolution fund and that both the resolution board and fund should be created in 2015. The Commission notes that the SRM will ensure that – notwithstanding stronger supervision – if a bank subject to the SSM faces serious difficulties, its resolution can be managed efficiently. In case of cross-border failures, it would be more efficient than a network of national resolution authorities and avoid risks of contagion. The SRM would apply the substantive rules of bank recovery and resolution – due to be adopted shortly – in the banking union. Details of a technical briefing and press conference have not been announced at the time of writing.

**ECB Executive Board Member Jörg Asmussen urged policy makers to accelerate the bail-in plans** forcing investors and wealthy savers to share the costs of future bank failures, noting that while the European Parliament is proposing bail-in to enter into force in 2016, he would prefer 1 January 2015, arguing that “*markets will in any case anticipate the bail-in earlier*”. He put forward the case for the bail-in arrangements to be more rules-based, and to limit the discretionary exclusions from bail-in. On the SSM, Mr. Asmussen expects the ECB to take over its banking supervisory role in September or October 2014, wishing for a fund (financed by levies on the whole banking sector and with a European backstop to effectively de-link national budgets and the banking system) to refloat or fold struggling banks to be in place by that time. Comment: the Commission's proposal will be an important step on the road to banking union...

**...but banking union continues to be opposed by Germany in particular**, with FinMin Wolfgang Schäuble arguing that the current treaty only allows a network of national resolution authorities. Schäuble said that the EC should respect the limited provisions in the Treaty and the need to be acceptable to the German

data are broadly in line with the May IR projections and do not imply upside to that forecast. Second, the MPC argue that the recent rise in market rates is not desirable and will dampen the outlook. And third, the MPC give a hint – more than a hint, really – that they intend to start forward guidance at the August meeting in order to put more direct downward pressure on yields.

**Michael Saunders** +44-20-7986-3299

## **Scandi Economics Update — Western Europe**

Norway — Inflation expected to be basically stable in June.

Sweden — Broadly stable inflation expectations in July, higher registered jobless rate in June.

**Tina Mortensen** +44-20-7986-3284

[>> Back to the Top](#)

Constitutional Court, which the EC proposal would not be, as it stretched article 114 of the Lisbon Treaty (which applies to rules to support the single market in the EU).

**The EU Single Market Commissioner Barnier protested that the proposal was consistent with the current Treaty**, as the stability of the banking sector was key for the stability of the single market and banking union was open to all EU members. German press reports also said that Germany would resist giving the EC the final decision power in bank resolution, but that Barnier maintained that this was the only legally practicable arrangement, as according to the Treaty only EU institutions could take the relevant decisions, and *"the EC was the only one that could take decisions at sufficient speed"*. The head of the German association of cooperative banks criticised the efforts towards a single resolution mechanism, saying that he would strongly resist any mutualisation of banking sector risks across countries at the expense of German banks. Comment: The two main sticking points remain the degree of centralisation of the resolution authority and the resolution fund. The EC proposal goes beyond what the French and German government agreed on in a common position a few weeks ago, while the ECB will probably mostly be happy with the EC proposal.

[>> Back to the Top](#)

**IMF take on the euro area** – the IMF lowered its global GDP growth forecast for 2013 and 2014 by 0.2ppt to 3.1% and 3.8%, respectively, citing *"appreciably weaker domestic demand and slower growth in several key emerging market economies, as well as by a more protracted recession in the euro area"*, adding that *"downside risks to global growth prospects still dominate"*. For the euro area, the IMF expected the recession to continue in 2013, with activity seen contracting by 0.6% for 2013 but anticipating a recovery in 2014, with GDP growing by 0.9%. Both estimates were revised down by 0.2ppt and 0.1ppt, respectively, compared to the 2013 April World Economic Outlook, related to *"expected delays in policy implementation in key areas, but also due to base effects from the delayed recovery in 2013"*. IMF Chief Economist Olivier Blanchard sees lack of confidence in the future in France and Germany, with the former expected to undergo a sizeable amount of fiscal consolidation ahead.

[>> Back to the Top](#)

**Portugal's opposition parties increase pressure on President to call early election.** The leaders of all opposition parties, including the main Socialist party currently leading in the opinion polls, told the President of the Republic in their consultations yesterday that the country needs new elections to resolve the political impasse, as the current government lacks the legitimacy to continue with the reform agenda. The Socialist party argued that Portugal needs to negotiate a second bailout programme – a precautionary one or something else – because of the failure of the current austerity policies. On the other hand, the leader of the junior coalition party CDS, who prompted the crisis with his resignation from the foreign ministry, claimed that the *"conditions for (government) stability are in place and that political stability is important for the conclusion of the aid package"*. The President is expected to announce the results of his consultations today. He is expected to give support to the new reshuffled government, with the junior coalition party CDS having obtained a more prominent role.

[>> Back to the Top](#)

**Spain – IMF sees no recovery in 2014 GDP**, revised down 2014 GDP growth from 0.7% to 0.0%, one of the largest downward revisions for the 2014 growth outlook. The IMF sees 2013 GDP falling by 1.6%. The downward revisions due to

the new fiscal measures announced in the Stability programme in April, which were not included in the April forecast update. Comment: the still large amount of fiscal tightening required from Spain to bring its fiscal deficit below the 3% threshold will continue to represent a major headwind for the economy, adding the negative forces of private deleveraging.

**Spain - boosting banks' capital via different accounting rules for deferred tax assets is being considered**, the Bank of Spain governor confirmed yesterday. Spanish lenders have been pushing for a different treatment of deferred tax assets (DTA) relative to the Basel III rules, allowing them to use DTA to boost their capital position. According to Bank of Spain data reported by Reuters, Spain's banking system had €58bn of tax assets in April, which could be now considered part of capital, if the different accounting treatment is permitted. The governor said he didn't want Spanish banks to be penalized under Basel III rules. He also said that the different accounting treatment of such bank assets would not add to the government's debt burden. Comment: this is a way for the government to recapitalise the banks without actually disbursing any money and probably without adding to its debt burden, given that these DTA would effectively be only contingent liabilities for the government.

[>> Back to the Top](#)

**French government unveils modest public sector investment programme –** Prime Minister Jean-Marc Ayrault said on Tuesday that France will use further sales of state shares in firms to help finance a new €12bn (0.6% of GDP) public investment drive over the next decade in order to limit its impact on public finances. In addition to environmentally friendly investments, the rest of the money will go towards research and development as well as health, transport and industrial projects. Mr Ayrault noted that spending under the investment programme will be phased in gradually and that the new package also does not include €20bn already in the pipeline for investments over the next 10 years in a new high speed Internet network and €4.5bn for hospitals. The government indicated that most of the package, half of which will target environmentally friendly investments, will not be spent until after 2016, when investments peak under a current, multi-year €35bn package also known as "Grand Emprunt" launched in 2010 during the Sarkozy Presidency. About €28bn of the €35bn from the Grand Emprunt have so far been committed but only €5bn have been spent.

**French banks deposits to increase –** The French government is planning to transfer €25bn of state-guaranteed savings deposits currently held at state lender Caisse des Depots (CDC) back to the banks which collected them on behalf of the state, potentially boosting their capital ratios according to French business daily *Les Echos*. The government decree would allow the banks to receive half of the €50bn of Livret A savings that were not used for social housing, according to an article published in *Journal du Dimanche* last month. As of June 2013, the amount of state-guaranteed savings (Livret A, LDD and LEP) stood at €363.7bn or around 18% of GDP.

[>> Back to the Top](#)

**German CPI inflation confirmed at 1.8% YY in June:** The German statistics institute confirmed the flash estimate for German CPI inflation at 1.8% YY, after 1.5 %YY in May and 1.2% in April. The main driver of the increase was strong food price rises of 5.4% YY, mainly because of poor harvests in Germany and elsewhere.

[>> Back to the Top](#)

## Latest issues of Sovereign Debt Crisis Update

### Greece Secures €6.8bn of New Bailout Funds

#### Western Europe

Eurogroup approves new Greek tranche, but less supportive troika and Eurogroup statements than before. Portugal's political crisis not yet resolved, in our view, despite Schäuble's remarks to the contrary. Eurogroup takes stock of good progress on Spain's bank bailout programme. ECB's Draghi calls for more growth-friendly fiscal consolidation, IMF calls for action to revive growth. France's Socialist Party prefers pension reform at a slow pace, according to Les Echos. German IP falls in May.

**Guillaume Menuet** +44-20-7986-1314

### EU Commission preparing second bailout for Portugal

#### Western Europe

Portuguese reshuffle tries to avert government collapse. S&P revises Portugal's sovereign rating outlook to negative. Second Portuguese bailout in works, says El Pais. Greece to face delay in payment of next tranche due end-July. France proposes new euro-area governance mechanism. ECB governing council split on interest rates, says Spiegel. French taxes will probably go up, says FinMin. US/EU free-trade talks start in Washington. Weak exports reduce German trade surplus in May.

**Guillaume Menuet** +44-20-7986-1314

### ECB Embraces Forward Guidance

#### Western Europe

ECB leaves key interest rates unchanged, but unexpectedly enacts new "forward guidance" framework - which ECB's Liikanen links to economic weakness. Rebalancing of Portugal's government coalition perhaps in the offing. IMF Article IV calls for Italy to move "beyond austerity", as government deficit widens - but EU Commission allows Italy to spend more in public investment. ECB threatens to pull plug on Cyprus. German KfW approves support for Spanish SME lending.

**Guillaume Menuet** +44-20-7986-1314

### Portugal remains in focus ahead of ECB press conference

#### Western Europe

ECB expected to leave key interest rates unchanged today. Portuguese coalition parties try to heal fracture within govt. Greek negotiations ahead of Eurogroup. EU Commission to relax budget rules on public investment programmes. French pension reform talks begin. US-EU free trade talks to begin on Monday. German opposition's investment plans. Cypriot top officials meet Draghi. Irish unemployment falls.

**Guillaume Menuet** +44-20-7986-1314

### Portugal's Government Coalition Breaking Down

#### Western Europe

Portugal's Paulo Portas - Foreign Minister and leader of junior coalition party - resigned a day after the departure of FinMin Gaspar. Portugal's opposition party calls for early election. Greece in talks with troika ahead of Monday's Eurogroup. Merkel on youth unemployment, treaty change and OSI. French ecology minister sacked by Hollande, as 2014 budget discussions continue.

**Guillaume Menuet** +44-20-7986-1314

[>> Back to the Top](#)

## Macroeconomic Forecasts

### European Economic Forecast Highlights — June 2013

#### Western Europe

This companion piece to the Jun 19 edition of Global Economic Outlook and Strategy contains more detailed quarterly economic forecasts for the main European countries to end 2014 as well as annual forecasts for all countries out to 2017.

**Ann O'Kelly** +44-20-7986-3297

### Global Economic Outlook and Strategy — June 2013\*

#### Global, CEEMEA, North America, Asia, Latin America, Australia

We are again cutting our emerging market growth forecasts and lifting advanced economy forecasts. The multi-year period of increasing EM outperformance and resilient balance sheets is giving way to growth downgrades with worsening current accounts and rising private debts. We expect that expectations of extra BoJ easing will weaken the yen further. The ECB is likely to cut the refi rate again, but we doubt that this will provide much stimulus. The Fed is likely to signal that tapering will be gradual and data-dependent, and that any move to tightening is both distant and data-dependent.

**Willem Buiter** +1-212-816-2363

[>> Back to the Top](#)

# Appendix A-1

## Analyst Certification

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

### IMPORTANT DISCLOSURES

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

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

### NON-US RESEARCH ANALYST DISCLOSURES

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

Citigroup Global Markets Ltd	Guillaume Menuet; Giada Giani; Ebrahim Rahbari; Michael Saunders; Tina Mortensen; Ann O'Kelly
Citigroup Global Markets Inc	Willem Buiter

### OTHER DISCLOSURES

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

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

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

**The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by.** The Product is made available in **Australia** through Citi Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty

Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A. Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. <http://dis.kofia.or.kr/frs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02>. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comisión Nacional Bancaria y de Valores. Reforma 398, Col. Juárez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ("FAA") through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 8 Marina View, 21st Floor Asia Square Tower 1, Singapore 018960, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold/Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African

Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E.**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different Citi Research ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

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

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

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

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

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

---

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

responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

---

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

---