21 August 2013 │ 52 pages

Global

Global Economic Outlook and Strategy

August 2013

- We are cutting 0.1% off our 2013 global growth forecast this month (to 2.4% at current exchange rates), putting 2013 global growth a little below the 2012 pace (2.6%). However, we are lifting our 2014 forecast by 0.1% to 3.2%. Within that, we are again cutting 0.1% off our EM growth forecasts for both 2013 and 2014, extending the long series of EM forecast downgrades since late-2011. However, we are lifting forecasts for growth in a range of European countries. Our growth forecasts across emerging markets are generally below consensus, notably for all four BRIC countries.

- Barring last minute surprises, the Fed is likely to begin tapering at the September meeting. However, the Fed is likely to combine tapering with a reinforced commitment to keep rates on hold until recovery is well advanced and a clear signal of intent to tighten only gradually thereafter. Japan's government will have to decide soon whether to implement the large consumption tax hike planned for 2014: we currently expect they will implement the tax hike, and that this will seriously dent growth prospects and spark expectations of renewed BoJ easing.

- We expect China's economy to slow further in H2 as the authorities seek to rein in credit excesses. Various other EM countries remain vulnerable to the combined effects of China's slowdown, modest advanced economy growth and the probable scaling back of the Fed's asset purchases. Moreover, policymakers in many EM countries probably have limited scope to revive growth, given worsening current account and fiscal balances. Issues of longterm fiscal sustainability probably will return to prominence in various EMU periphery countries in coming months, including Greece, Portugal, Ireland, Italy and Spain. We expect that Greece will need a further restructuring of its government debt soon, and that Portugal will need a second full programme — and this likely may well come with some restructuring of public sector and bank liabilities.

- We no longer expect the ECB to cut the refi rate or deposit rate in our base case, although easing could come back on the agenda if financial conditions tighten abruptly or growth prospects worsen. We pencil in the first Fed hike for 2015, with an even longer period of ultra-low rates likely from the ECB, BoJ and BoE.

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With thanks to Jan Maguire

Next issue 25 September 2013

Figure 1. Currency and Interest Rate Forecasts, as of 21 Aug 2013

	21 Aug 2013	4Q 13F	1Q 14F	2Q 14F	3Q 14F	4Q 14F	1Q 15F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-Yr. Treasuries (Period Ave.)	2.83	2.70	2.80	3.00	3.15	3.25	3.40
Euro Area: US$/€	1.33	1.33	1.31	1.30	1.31	1.33	1.33
Euro Repo Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
10-Yr. Bunds (Period Ave.)	1.84	1.70	1.80	1.80	1.80	1.90	2.00
Japan: Yen/US$	97	103	108	110	110	110	110
Call Money	0.10	0.10	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.75	0.80	0.70	0.60	0.70	0.80	0.80

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

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Figure 2. Forecast Highlights and Changes from Last Month

■ Global	This month, we are cutting 0.1% off our 2013 global growth forecast (to 2.4%) but lifting our 2014 forecast by 0.1%. Within that, we are again cutting 0.1% off our EM growth forecasts for both 2013 and 2014, but are lifting forecasts for growth in a range of European countries.
■ United States	Job growth and private demand have held up well through peak fiscal headwinds that are set to fade in coming months. The Fed is expected to shift the burden of accommodation toward greater reliance on forward rate guidance, with an initial scaling back of QE following the September FOMC meeting. Rapid improvement in the fiscal position has lowered the bar for successful budget negotiations but also clouded prospects for needed structural reforms.
■ Euro Area	We raise our forecasts for 2013 and 2014 to -0.5% and +0.6%, respectively after a better-than-expected 2Q GDP and continued modest upswing in sentiment surveys during 3Q. We no longer forecast the ECB to lower its main refinancing rate. Instead, we expect the Governing Council to ratchet up its forward guidance rhetoric and rely on non-standard measures to combat unwarranted increases in market rates.
■ China	Real economic activity improved in July, with nominal FAI and retail sales growth steady, and IP growth picking up benefiting from a low base last year, summer heat and government disclosure of bottom-line growth rate. We see some upside possibilities to 3Q growth, but expect growth to decelerate again in 4Q due to tighter credit condition in 2H. We maintain our 2013 growth forecast at 7.4%.
■ Japan	The most important key to monitor over the near-term is PM Abe's final decision on whether or not to implement the consumption tax hike (likely in late September or early October). In our view, the probability that PM Abe will go ahead with the current plan is 60-70% while the possibility of postponement of the tax hike is 30-40%.
■ United Kingdom	We have markedly raised our growth forecasts but, with the new forward guidance programme, still expect a long period of ultra-low MPC rates.
■ Canada	The outlook for growth and inflation remains largely unchanged despite recent shocks. Hence we maintain our expectation of a 1.00% policy rate target until 1Q 2015, accompanied by a slight tightening bias.
■ Australia	Australians will vote on September 7. We believe the likely end to minority government will be a small positive for business confidence, regardless of which major political party wins the poll. Fiscal austerity under the next administration is unlikely, although the new government will need to get to work on an economic reform agenda to improve productivity and long-term fiscal sustainability.
■ Emerging Asia (ex China)	Economic activity has bottomed in the export-driven economies of HK, Korea, Singapore & Taiwan — we expect a mild export rebound in 3Q13 but China drag risks continue to weigh. Meanwhile, we downgraded growth forecasts in both India and Indonesia as their external imbalances, and central bank policy responses to FX pressures, significantly impact funding conditions. We expect BI will need to hike further and RBI to keep liquidity tight for a while.
■ CEEMEA	Although CEEMEA was often considered by analysts (including ourselves) to be the most 'risky' part of EM, currency sell-offs in the past 3 months have treated EMs in the European time zone relatively lightly. The ZAR and TRY have depreciated sharply to be sure, thanks to large current account deficits financed by volatile capital flows, but other currencies in the region have fared better. Better Eurozone data is one reason for this, and another is the relative lack of direct exposure to China among CEEMEA economies.
■ Lat Am	In Brazil, we downgraded our 2013 and 2014 real GDP growth estimates to 2.1% and to 2.0% (from 2.2% and 2.5% respectively). In Mexico, we downgraded our 2013 growth forecast to 2% from 2.7%. In the August 11 compulsory primaries in Argentina, the incumbent FpV gathered many fewer votes than we were expecting. In Venezuela, economic activity and inflation continued to deteriorate.

Source: Citi Research

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

	2012	2013F	2014F
World	**1.8%**	**2.9%**	**3.7%**
United States	3.6	4.2	4.2
Japan	0.2	0.2	3.2
Euro Area	-2.3	0.0	0.9
United Kingdom	-2.4	-0.8	0.9
Canada	0.9	1.5	1.8
China	10.0	9.1	8.7
India	2.1	2.3	4.8
Korea	0.9	0.2	3.4
Brazil	-2.7	2.0	2.5

Source: Citi Research

Overview — Key Uncertainties Looming

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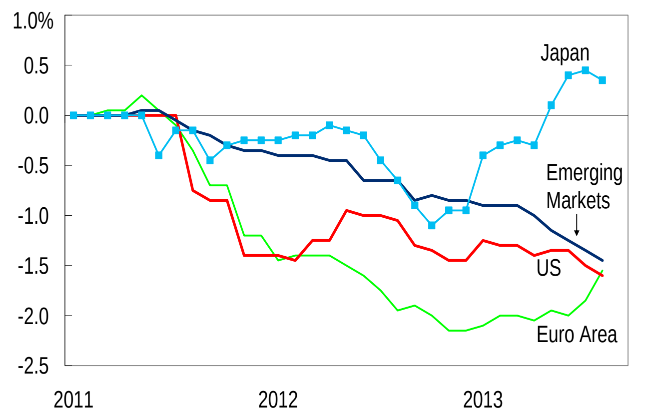
We are again cutting EM forecasts in a range of countries, pulling our 2013 global growth forecast down slightly

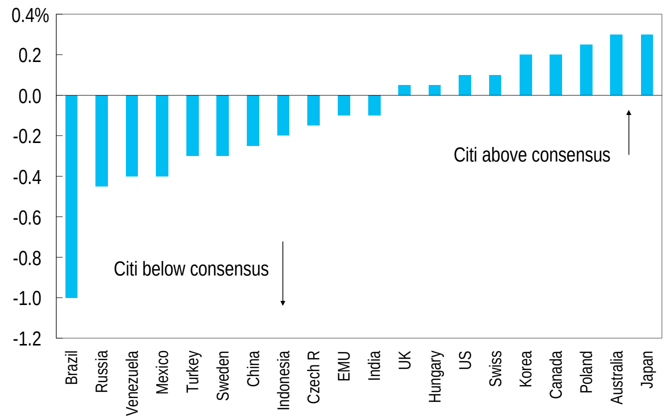
This month, we are cutting 0.1% off our 2013 global growth forecast (to 2.4%), with global growth this year a little below last year's pace (2.6%). However, we are lifting by 0.1% our forecasts for 2014, 2015 and 2016 (to 3.2%, 3.5% and 3.7% respectively at current exchange rates). Within that, we are again cutting 0.1% off our EM growth forecasts for both 2013 and 2014, but are lifting forecasts for growth in a range of European countries. Consensus forecasts for EM growth are also falling, but our growth forecasts across emerging markets are generally below consensus, including for all four BRIC countries. By contrast, our forecasts for advanced economy growth in general are quite close to consensus, or even a little above (eg Japan, Australia).

Figure 4. Global — Changes in Citi Growth Forecasts for 2013-14 Since Jan-11, 2011-13



Source: Citi Research

Figure 5. Global — Citi Forecasts for Real GDP Growth in 2013-14 Versus Consensus



Sources: Consensus Economics and Citi Research

Apart from the shifting outlook, we highlight four upcoming issues that are likely to play a major role in shaping the economic and market outlook in coming months.

Fed Tapering and its Implications

The Fed will probably begin tapering at the September meeting…

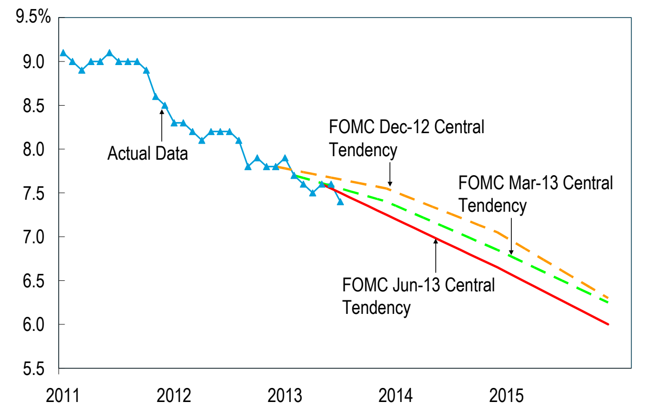
We currently expect that, barring last minute surprises from data or markets, the Fed will begin tapering at the September 17-18 meeting, stepping down bond purchases from $85bn per month to perhaps $60bn or so, while signaling its intention to scale down purchases further at the meetings of Dec-13 and Mar-14 and to end the programme around mid-14. We believe this prospect is already quite well anticipated in US asset markets. US financial conditions remain highly supportive of growth prospects, and would remain so even if conditions tighten a bit. But, it is unclear whether the resultant drop in global liquidity amidst slowing EM growth is fully discounted in all non-US markets.

…but the September meeting offers plenty of scope for surprises

Moreover, the Fed probably will accompany the start of tapering with other announcements, in particular lower forecasts for the jobless rate, a signal that the jobless threshold for rate guidance may over time be reduced below 6.5%, and outline projections by FOMC members for the path of the economy and Fed Funds in 2016[1]. We expect the Fed's overall message to be a shift of emphasis from asset purchases to keeping rates on hold until recovery is well advanced — and tightening initially quite gradually thereafter. But the overall statement will probably be multi-faceted, and there could well be important aspects that surprise markets.

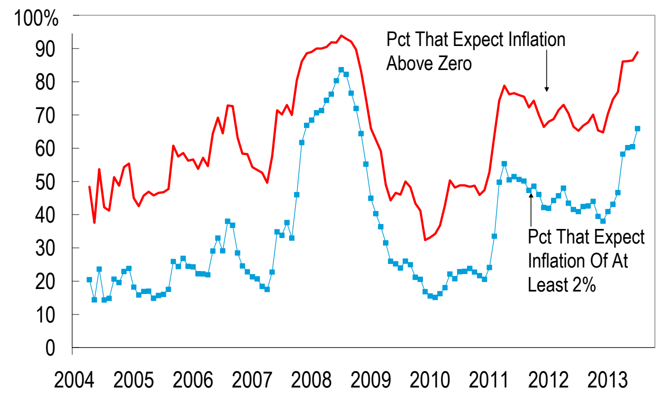
[1] See "Fundamentals Overtaking Fiscal Headwinds", U.S. Economics Weekly, Robert DiClemente, 2 August 2013, Citi.

Figure 6. US — Jobless Rate and FOMC Central Forecasts, 2011-15F



F FOMC Midpoint of the central tendency forecasts. Note: Fed forecasts are for Q4 each year, and we have interpolated them into a monthly profile. Source: Citi Research

Figure 7. Japan — Household Inflation Expectations, 2004-13



Sources: Japan's Cabinet Office and Citi Research

Will Japan hike the consumption tax next year?

The next month or two will see key decisions over Japan's fiscal outlook…

The key near-term issue is PM Abe's final decision (likely in late September or early October) on whether to implement the consumption tax hike (from 5% to 8%) that is currently planned for Q2-2014. At present, the economy is growing quite solidly (with average growth of 3.2% QoQ SAAR in H1), while household inflation expectations and pay growth have both picked up. But the BoJ is unlikely to meet its 2% inflation target on a sustained basis unless recovery continues over an extended period. If the tax hike is implemented, the government is very likely to introduce another temporary fiscal stimulus package in order to mitigate its negative impact. Even so, consumer spending probably would contract sharply in Q2-2014, adding to economic slack and encouraging renewed caution among businesses and consumers. Under this scenario, the yen probably will depreciate further as markets anticipate renewed BoJ easing. However, with growth uncertainties, some key advisors to the PM have publicly called for the tax hike to be delayed or spread over several years. If this happens, further BoJ easing may not be needed unless government bond yields climb sharply. We currently put the probability that PM Abe will go ahead with the current plan at 60-70%, with a 30-40% chance that the tax hike is fully or partly postponed.

…along with renewed focus on the "third arrow"

In addition, a special session of the Parliament where PM Abe's growth strategy (the third arrow) is discussed will start in mid-October. So far, the government's reform agenda has proved uninspiring, in our view. Recent press headlines hint at the possibility of a cut in the corporate tax rate, and this issue may return in the autumn, alongside other measures. Based on the government's record so far, we believe that market expectations for reform are quite low. But, if the government does take advantage of its post-election position to move more decisively, then this could improve medium-term growth prospects.

EM vulnerabilities and implications

We are making notable downgrades this month to forecasts for Taiwan, India, Indonesia, Brazil and Mexico

We are again cutting our aggregate 2013-14 EM growth forecasts slightly this month, with notable downgrades to the projections for Taiwan, India, Indonesia, Brazil and Mexico. Our aggregate EM growth forecasts peaked as far ago as 2011, and since then we have cut our EM forecasts by 1.7% for 2013, by 1.3% for 2014 and by 0.9% for 2015. The EM downgrades reflect various country-specific factors, but common themes are still-sluggish export growth to advanced economies, the deterioration in private sector balance sheets across many emerging markets, plus

the vulnerability of many emerging markets to yen depreciation and China's slowdown. We do expect some pick up in advanced economy growth in H2 this year, but the resultant boost to world trade is likely to be modest.

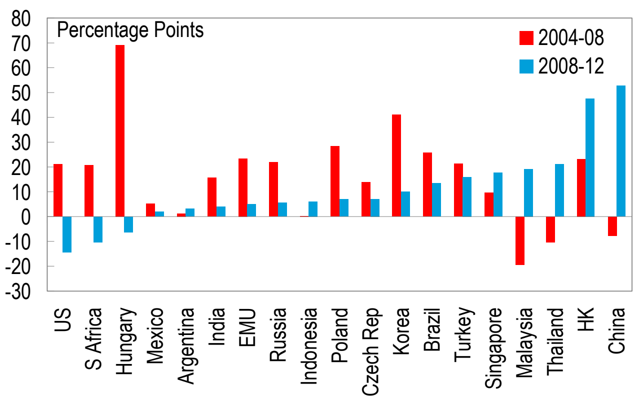
China's economy is likely to slow further in coming quarters…

We are not changing our forecasts for China's growth this month. We still look for GDP growth of about 7% in both 2014 and 2015 as a whole, with YoY growth probably slipping below 7% in the next few quarters. Moreover, we judge that risks to China's growth in coming quarters probably lie to the downside as the authorities try to rein in the boom in credit and investment spending. China's private debt/GDP ratio (the sum of unconsolidated gross debt of the household and non-financial corporate sectors compared to annual GDP) has surged from 117.4% at end-2008 to 170.2% at end-2012, and efforts to cool credit growth are likely to take a substantial toll on activity in coming quarters.

…with wider vulnerabilities and balance sheet weaknesses in other emerging markets

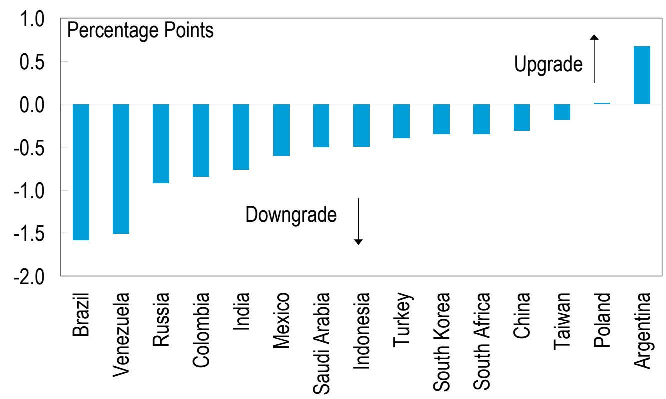
Economies and markets in various other EM countries remain vulnerable to the combined effects of China's slowdown, modest advanced economy growth and the probable scaling back of the Fed's asset purchases. Moreover, policymakers in many EM countries probably have limited scope to revive growth, given worsening current account and fiscal balances. Excluding China and the GCC countries, the EM countries as a whole have moved from a current account surplus of 2.3% of GDP in 2006 to a current account deficit of about 0.8% of GDP this year, the biggest aggregate deficit since 1998 (1.4% of GDP). For the first time in many years, a rising share of EM countries faces the challenge of meeting their expanding financing needs amidst weakening growth and without significant new stimulus from advanced economy central banks.

Figure 8. US, EMU and Emerging Markets — Change in Private Debt/GDP Ratios, 2004-12



Note: Data at Q4 each year. Private debt is the sum of gross unconsolidated debt of the household and non-financial corporate sectors. This is measured against the four-quarter average of nominal GDP. Sources: BIS, DataStream and Citi Research

Figure 9. Emerging Markets — Changes in Citi Forecasts for Real GDP Growth in 2013-14 Since Jan-13



Note: We show the 15 biggest EM countries (by 2012 nominal GDP) that we cover. Sources: IMF and Citi Research

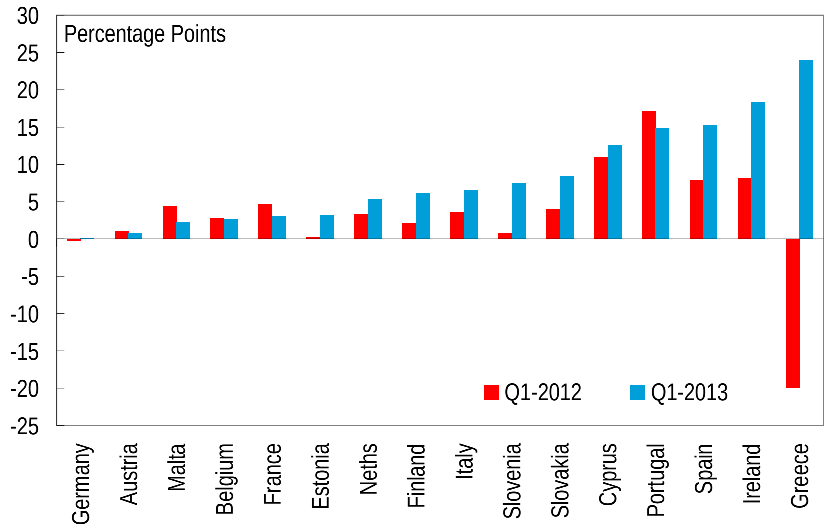
Unresolved and Unavoidable Euro Fiscal Issues

The euro area has exited recession and we no longer have an ECB rate cut in our base case

With Q2 GDP up 0.3% QoQ, the Euro economy has finally exited its latest recession and, as noted above, we are again lifting our growth forecasts. We no longer expect the ECB to cut the refi rate or deposit rate in our base case, although easing could come back into play if financial conditions tighten abruptly or lead guides indicate that growth prospects are fading. However, most periphery economies continue to undershoot the euro area average, and fiscal trajectories in the euro area periphery economies remain weak. With a varied mix of sizeable fiscal deficits, falling nominal GDP and (in some cases) sizeable bank

recapitalisation needs, the general government debt/GDP ratio in Q1 hit new record highs across the periphery countries, up by 6.6 percentage points from a year ago in Italy, 12.6pp in Cyprus, 14.9pp in Portugal, 15.2pp in Spain, 18.3pp in Ireland and 24.0pp in Greece. The increases for both Spain and Greece (which include bank recap costs) were the biggest on record for those countries. Moreover, austerity fatigue is widespread amidst very high unemployment in periphery countries, and a series of unresolved issues will need to be tackled in coming months.

Figure 10. Euro Area — YoY Change in General Government Gross Debt/GDP Ratio, 2012-13



Note: Drop in Greece's ratio for 2012 reflects restructuring of government debts.
Sources: Eurostat and Citi Research

We expect renewed debate over whether Greece will need a further restructuring of its government debts…

- Will Greece need a new debt restructuring? Greece's fiscal position has long been unsustainable in our view[2], but focus on this issue will probably sharpen in coming months. The IMF recently warned that Greece faces a large financing gap (€11bn) from August 2014 onwards which, under the principle that IMF programs must be fully funded on a 12-month forward basis, must be addressed by the time of the next IMF review (due around end-October)[3]. Moreover, Greece recorded a primary fiscal surplus on the narrow monthly cash measure in January-July[4] and the Eurogroup of Finance Ministers had previously agreed[5] to "*consider further measures and assistance*" for Greece once the country achieves a full year primary fiscal surplus (and fulfils reform requirements) in order to ensure that Greece achieves a debt/GDP ratio of 175% for 2016 (and a ratio of 124% in 2020). Moreover, the Budget for 2014 will have to be presented in coming months, and the government has already said that it does not intend to announce extra fiscal tightening to offset the emerging financing gap – hence implying a need for some form of restructuring to cut the gap.

[2] See, for example, "Global Economic Outlook and Strategy" October 2012, Willem Buiter et al, Citi.

[3] See IMF Fourth Review, July 2013.

[4] This is on the monthly fiscal data, and the primary surplus is measured excluding local government and social security spending as well as debt interest. The figures include the first of several one-off transfers from other european central banks.

[5] See statement of 27 November 2012.

…while the prospect of a second bailout for Portugal also will probably raise questions over some restructuring of liabilities

- Will Portugal need a second rescue package and, if so, will this include some restructuring of liabilities? Portugal's IMF/ESM programme is due to end in mid-2014 and decisions on whether the country will need a second programme have to be made in the next quarter or two. At present, Portugal still lacks full market access and, with the government debt/GDP ratio still rising rapidly, we believe that Portugal will need a second fully funded ESM programme. In order to offer some hope of the country eventually achieving debt sustainability, a second programme may include — at the outset — some restructuring of liabilities for the general government, public corporations and/or banks. The balance of burden-sharing between official and private creditors would, of course, be a key issue.

Ireland probably does not need external funding, but would benefit from an external backstop

- Will Ireland be able to secure an adequate backstop once its current IMF/ESM programme is completed around yearend? We do not believe that Ireland needs a *full*y funded second programme. The country has regained market access at tolerable yields and, after renewed recession in late 2012 and early 2013, recent data suggest the economy rebounded strongly in Q2. Nevertheless, we do believe that Ireland would benefit greatly from having a backstop as insurance against possible market strains. Finance Minister Noonan and the IMF have both indicated that discussions on a possible financing backstop are underway. The absence of such a backstop would leave Ireland exposed to adverse shocks (eg weaker external growth), or a self-fulfilling "fear equilibrium" in which higher market interest rates creates fears of future fiscal unsustainability that validates a further rise in yields. However, at present, the most likely available backstop – the ECB's OMT facility — can only be accessed by countries that are in an ESM programme, and hence could only be used if Ireland enters a second programme. One option would be for Ireland to enter an ECCL or PCCL programme from the ESM, with no intention of drawing funds, purely in order to be able to access the OMT facility. Another option would be to change the OMT's rules to allow access by countries not in an ESM programme. However, either option would require German agreement, which may be politically difficult.

Spain's ESM facility for bank recapitalisation costs is due to close at end-2013

- Will Spain seek to extend the ESM bank recapitalisation facility into 2014? The facility was set at a limit of €100bn, of which only €41bn has so been used, but is only available to end-2013. There are still risks of further bank recap needs beyond 2013, in our view, given that banks' doubtful loans remain very high, the ECB's asset quality review and stress tests are not complete, and Spanish property prices are still falling (national house prices per square metre fell 7.8% YoY in Q2). However, any agreement to extend the deadline for the ESM facility would need consent from other EU countries, and — even if extra conditionality is very light — may still be politically unpalatable for the Spanish government.

Italy's government faces ongoing challenges

- Will Italy's fragile government survive? Tensions within the unusual (by Italian standards) PD-PdL grand coalition backing the government have recently intensified, after centre-right leader Silvio Berlusconi was sentenced to four years in jail for tax fraud. If the crucial Senate vote on 9 September forces Mr. Berlusconi out of Parliament — as seems likely at this point — the 4-month old government led by PD Enrico Letta may topple. The ballot boxes could be avoided in the immediate aftermath by finding a different coalition supporting a new temporary government, but we reckon new elections are most likely in 2014. High political uncertainty, fading political commitment to fiscal consolidation and structural reforms, rising public debt and economic stagnation look set to keep Italy highly vulnerable to any gyration in market sentiment.

All these issues will need to be addressed in the context of Germany's election result

Moreover, all of these issues have to be addressed in the context of the German election result. It seems highly likely at present that Merkel will stay as Chancellor and head of a coalition government. But, in our view, it is not clear if it will be an extension of the current CDU/FDP coalition or a grand coalition that includes the SPD. We judge that a grand coalition would probably have marginally more political room for manouevre. But, the election outcome may shape the new government's response to the euro crisis in unpredictable ways. Moreover, the fact that the election is past also may make the German government more willing to acknowledge that further debt restructuring is probably necessary to give various periphery countries a chance of returning to sustainable fiscal paths.

Measures to resolve any one of these issues could have broader spillovers

It is unlikely, in our view, that all of these issues will be resolved smoothly and without spillovers, especially given that measures aimed at addressing one of these issues may complicate the others. For example, in our view, it seems highly likely that Greece's debts to official bodies will be restructured further, possibly with further reductions in interest rates and maturity extensions (trending towards a possible destination of ultra-long — or even perpetual debts with zero interest rates). But, any such agreement for Greece would raise questions over whether it could apply to Portugal or Ireland as well. Similarly, we suspect that some liabilities of Portugal's public corporations and banks will be restructured, and such a move could spark concern among creditors of banks and public sector bodies in other periphery countries. Likewise, if Ireland seeks an ECCL or PCCL programme with very light formal conditionality purely in order to access the OMT, EU policy makers may fear that other periphery countries (eg Portugal, Spain or Italy) will be tempted to follow, hence potentially inflating OMT usage to a level that some find disconcerting.

Outlook — Modest Global Growth, With Notable Risks

In our base case, we expect pickups in growth in the US and euro area, a modest further slowdown in China, a further lengthy period of low official rates in advanced economies and a gradual rise in advanced economy core bond yields. Among emerging markets, we expect some monetary loosening in coming months (eg Hungary, India, Russia) but, despite weakening EM growth prospects, BoP constraints may force some EM countries to actually hike rates in coming quarters (eg Brazil, Indonesia, Philippines). But, it is quite possible in our view that one or more of these issues will evolve in a way that proves more disruptive for economies and markets. And, while these issues are to an extent unconnected, their combined effects could multiply the range of possible outcomes. For example, a mix of markedly higher US rate expectations (eg because markets anticipate an earlier move to sub-6% unemployment) coupled with a much weaker yen (if the Japanese authorities hike the consumption tax) could markedly exacerbate the squeeze on export-oriented emerging markets, especially in the context of China's ongoing slowdown.

Figure 11. Selected Countries — Economic Forecast Overview (Percent), 2012-2017F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F
Global	**2.6**	**2.4**	**3.2**	**3.5**	**3.7**	**3.7**	**2.9**	**2.6**	**3.0**	**3.1**	**3.2**	**3.2**	**2.32**	**2.19**	**2.33**	**3.09**	**3.52**	**3.88**
Based on PPP weights	*3.2*	*2.9*	*3.6*	*4.0*	*4.2*	*4.2*	*3.4*	*3.0*	*3.3*	*3.6*	*3.6*	*3.7*	*2.91*	*2.72*	*2.86*	*3.59*	*3.96*	*4.28*
Industrial Countries	**1.4**	**1.0**	**1.9**	**2.1**	**2.3**	**2.3**	**1.8**	**1.3**	**1.8**	**1.4**	**1.4**	**1.4**	**0.58**	**0.46**	**0.48**	**0.86**	**1.50**	**2.08**
United States	**2.8**	**1.6**	**2.7**	**3.2**	**3.2**	**3.0**	**1.8**	**1.3**	**2.0**	**2.1**	**2.1**	**2.1**	**0.12**	**0.25**	**0.25**	**0.75**	**1.65**	**2.50**
Japan	**2.0**	**2.0**	**2.0**	**1.0**	**1.2**	**1.2**	**0.0**	**0.0**	**2.1**	**0.7**	**0.5**	**0.7**	**0.07**	**0.07**	**0.13**	**0.10**	**0.10**	**0.10**
Euro Area	**-0.5**	**-0.5**	**0.6**	**0.9**	**1.3**	**1.5**	**2.5**	**1.5**	**1.4**	**1.3**	**1.4**	**1.3**	**0.88**	**0.56**	**0.50**	**0.50**	**0.56**	**0.81**
Canada	1.7	1.8	2.5	3.0	3.0	2.8	1.5	1.2	1.8	2.0	2.0	2.0	1.00	1.00	1.00	1.63	2.44	3.00
Australia	3.6	2.5	3.1	3.0	3.0	3.2	1.8	2.1	2.8	2.8	2.5	2.3	3.56	2.69	2.69	3.63	4.75	4.75
New Zealand	2.2	2.6	2.8	2.0	1.9	1.8	1.1	1.2	2.3	2.4	2.3	2.1	2.50	2.54	3.19	4.75	5.00	5.00
Germany	0.9	0.6	1.7	1.6	1.5	1.4	2.0	1.7	1.9	1.9	1.8	1.8						
France	0.0	0.2	0.8	0.9	1.4	1.9	2.2	1.1	1.7	1.4	1.7	1.4						
Italy	-2.4	-1.6	-0.1	0.1	0.4	0.7	3.3	1.5	1.3	0.7	0.3	0.4						
Spain	-1.4	-1.4	-0.2	0.5	1.3	1.5	2.4	1.8	0.9	0.7	0.5	0.5						
Greece	-6.4	-4.4	-3.9	-2.3	0.6	1.3	1.0	-0.4	-0.9	-0.6	0.2	0.3						
Ireland	0.1	0.2	2.5	2.3	2.7	3.0	0.7	-0.4	1.4	1.6	1.6	1.6						
Portugal	-3.2	-1.9	-0.9	0.2	1.1	1.2	2.8	0.6	0.1	-0.3	0.4	0.7						
Netherlands	-1.3	-1.3	0.3	0.9	1.2	1.6	2.8	3.0	1.9	1.5	1.8	1.6						
Belgium	-0.3	-0.2	0.4	1.0	1.4	1.6	2.8	1.3	1.9	1.8	1.9	1.9						
Denmark	-0.4	0.1	0.7	1.4	1.5	1.5	2.4	0.9	1.5	1.7	1.8	1.9	0.43	0.10	0.20	0.40	0.60	1.00
Norway	3.3	2.2	2.6	2.8	2.7	2.7	0.7	1.7	1.5	1.8	1.9	2.3	1.55	1.50	1.55	2.00	2.51	3.08
Sweden	1.1	1.0	2.2	2.5	2.5	2.9	0.9	0.1	1.0	1.8	2.2	2.3	1.45	1.00	1.00	1.31	1.73	2.29
Switzerland	1.0	1.7	1.5	1.7	1.8	1.5	-0.7	-0.2	0.3	1.2	1.2	1.0	0.00	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.1	1.1	2.1	2.7	2.8	2.9	2.8	2.6	2.0	2.1	2.0	2.0	0.50	0.50	0.50	0.50	0.50	1.04
Emerging Markets	**4.7**	**4.6**	**5.0**	**5.3**	**5.5**	**5.6**	**4.6**	**4.7**	**4.6**	**4.6**	**4.6**	**4.6**	**5.20**	**4.89**	**5.06**	**5.34**	**5.50**	**5.58**
China	**7.8**	**7.4**	**7.1**	**7.0**	**7.5**	**7.3**	**2.6**	**2.7**	**3.0**	**3.5**	**3.8**	**4.0**	**3.25**	**3.00**	**3.13**	**3.25**	**3.38**	**3.75**
Taiwan	1.3	2.6	3.8	4.0	4.5	4.5	1.9	1.5	1.9	1.8	1.8	1.8	1.88	1.88	1.97	2.38	2.88	3.38
India	5.0	5.4	6.2	7.2	7.3	7.4	7.3	5.5	5.0	5.0	5.0	5.0	7.80	6.75	6.75	6.75	6.75	6.75
Indonesia	6.2	5.8	5.6	5.7	5.9	6.0	4.3	7.1	5.5	5.7	5.4	5.3	3.90	4.56	5.00	5.25	5.25	5.25
Korea	2.0	2.9	3.7	4.2	4.2	3.7	2.2	1.5	2.6	3.2	3.1	3.0	3.06	2.56	2.50	3.00	3.75	4.00
Czech Republic	-1.2	-1.0	1.6	2.3	2.4	2.7	3.3	1.6	1.3	1.9	1.6	2.0	0.51	0.04	0.05	0.44	1.29	2.08
Hungary	-1.7	0.6	1.4	1.2	1.6	1.8	5.7	1.9	2.1	3.5	3.5	3.3	6.77	4.31	3.71	4.98	5.00	5.00
Poland	1.9	1.3	2.8	3.3	3.3	3.2	3.7	1.1	2.2	2.5	2.5	2.5	4.61	2.92	2.75	3.75	4.67	4.71
Romania	0.4	1.6	2.8	3.5	4.0	4.0	3.3	4.5	2.8	3.2	2.5	2.5	5.25	4.75	4.00	4.88	5.00	5.00
Russia	3.4	2.1	2.8	3.3	3.3	3.3	5.1	6.5	5.1	4.9	4.7	4.5	8.07	8.02	7.50	7.00	7.00	7.00
Turkey	2.2	3.5	4.0	4.2	4.2	4.2	8.9	7.3	7.3	6.9	6.4	5.8	5.69	4.75	5.00	7.25	7.50	7.50
Nigeria	7.4	6.5	6.9	6.8	7.1	7.0	12.2	8.6	10.4	12.2	10.8	9.9	12.00	11.75	11.75	12.50	11.25	9.00
South Africa	2.5	2.3	2.9	3.4	3.9	4.4	5.7	5.6	5.8	5.9	5.7	5.7	5.28	5.00	4.83	5.38	6.00	6.00
Argentina	1.9	4.4	3.0	2.0	-2.0	3.5	10.0	10.4	12.6	15.0	50.0	30.0	13.89	16.95	21.43	24.00	24.00	24.00
Brazil	0.9	2.1	2.0	2.0	2.5	3.0	5.4	6.2	5.9	5.6	5.5	5.5	8.46	8.29	9.25	10.00	10.13	9.50
Mexico	3.9	2.0	4.2	4.0	3.8	3.7	4.1	3.8	3.4	3.6	3.6	3.6	4.50	4.08	4.00	4.44	5.90	6.42
Venezuela	5.6	-0.5	1.5	2.1	2.5	2.6	21.1	34.7	32.5	24.8	22.9	22.9	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. For Indonesia we refer to the FasB1 rate to reflect actual money market rates.
Source: Citi Research

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

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F
Global	**0.3**	**0.4**	**0.2**	**-0.1**	**-0.3**	**-0.3**	**-4.4**	**-3.7**	**-3.2**	**-2.8**	**-2.5**	**-2.3**	**86**	**88**	**86**	**85**	**84**	**83**
Based on PPP weights	*0.2*	*0.2*	*0.0*	*-0.3*	*-0.5*	*-0.6*	*-4.2*	*-3.6*	*-3.4*	*-2.9*	*-2.7*	*-2.5*	*78*	*79*	*79*	*78*	*77*	*76*
Industrial Countries	**-0.5**	**-0.1**	**-0.1**	**-0.3**	**-0.2**	**-0.2**	**-6.0**	**-4.5**	**-3.6**	**-3.0**	**-2.6**	**-2.4**	**112**	**116**	**114**	**115**	**115**	**115**
United States	**-2.7**	**-2.8**	**-2.8**	**-3.0**	**-3.0**	**-3.0**	**-8.1**	**-4.8**	**-4.3**	**-3.8**	**-3.8**	**-3.8**	**103**	**106**	**108**	**109**	**109**	**109**
Japan	**1.1**	**1.5**	**2.5**	**1.8**	**1.5**	**1.3**	**-10.7**	**-9.8**	**-8.0**	**-6.2**	**-5.8**	**-5.4**	**237**	**244**	**246**	**251**	**255**	**258**
Euro Area	**1.2**	**2.5**	**2.3**	**2.3**	**2.3**	**2.3**	**-3.7**	**-2.9**	**-2.5**	**-1.9**	**-1.6**	**-1.2**	**93**	**96**	**97**	**97**	**97**	**95**
Canada	-3.4	-3.2	-3.4	-3.5	-3.0	-2.6	-1.4	-1.0	-0.3	0.0	0.2	0.2	84	84	83	82	80	79
Australia	-3.7	-2.9	-3.9	-3.5	-3.2	-3.0	-3.0	-2.5	-1.9	-1.5	-0.3	0.2	29	28	30	30	28	27
New Zealand	-4.9	-5.5	-6.8	-9.6	-12.2	-12.9	-5.3	-3.1	-0.9	-0.5	-0.2	0.3	39	38	41	40	41	42
Germany	7.0	6.9	6.0	5.4	4.9	4.7	0.2	-0.1	0.3	0.5	0.5	0.8	82	80	77	74	71	68
France	-2.2	-1.6	-0.8	-0.2	0.3	0.0	-4.8	-3.8	-3.2	-2.8	-2.4	-1.8	90	94	95	96	95	94
Italy	-0.5	1.4	2.1	2.2	2.3	2.5	-3.0	-3.5	-3.0	-2.8	-2.7	-2.4	127	133	137	139	140	141
Spain	-1.1	1.2	2.0	3.0	3.6	4.1	-10.6	-6.5	-5.9	-4.6	-3.7	-3.1	84	94	103	107	108	109
Greece	-3.4	-0.4	0.8	1.4	3.9	5.0	-10.0	-5.3	-4.9	-3.7	-2.4	-1.0	157	179	197	210	214	216
Ireland	4.4	4.6	7.1	7.8	8.5	9.3	-7.6	-8.2	-5.4	-3.4	-2.7	-2.4	119	125	122	119	117	114
Portugal	-1.5	1.2	3.2	3.6	3.6	3.9	-6.4	-6.0	-5.7	-4.5	-3.9	-3.4	124	134	151	155	157	158
Netherlands	10.1	9.4	8.9	9.4	9.5	9.6	-4.1	-3.9	-3.4	-2.9	-2.3	-1.4	71	75	76	77	77	76
Belgium	-1.6	-2.0	-1.6	-1.0	-0.2	0.5	-3.9	-3.2	-2.9	-2.1	-1.5	-1.3	100	102	103	102	100	98
Denmark	6.7	5.3	4.7	4.2	4.0	3.8	-4.3	-2.0	-1.5	-1.0	0.5	1.0	46	47	48	47	45	43
Norway	14.2	14.5	14.9	15.2	15.4	15.0	13.8	13.1	13.0	14.0	15.5	15.0	NA	NA	NA	NA	NA	NA
Sweden	6.9	7.1	6.9	6.7	6.8	6.7	-0.6	-1.5	-1.5	-0.4	0.7	1.5	38	39	40	39	36	33
Switzerland	12.8	12.9	13.0	12.9	14.0	14.0	0.5	0.7	0.9	0.8	0.8	-0.6	47	45	43	42	42	42
United Kingdom	-3.7	-3.3	-2.9	-2.7	-2.6	-2.5	-6.3	-6.9	-5.8	-4.7	-2.8	-1.4	90	93	97	98	97	94
Emerging Markets	**1.7**	**1.1**	**0.6**	**0.1**	**-0.3**	**-0.5**	**-1.7**	**-2.4**	**-2.6**	**-2.5**	**-2.4**	**-2.3**	**43**	**42**	**42**	**41**	**40**	**39**
China	**2.3**	**2.2**	**2.0**	**1.5**	**0.8**	**0.5**	**-2.0**	**-2.0**	**-2.0**	**-1.5**	**-1.5**	**-1.5**	**45**	**45**	**45**	**44**	**43**	**42**
Taiwan	10.5	9.1	8.5	8.0	8.0	8.0	-1.6	-1.2	-1.3	-1.0	-0.7	-0.5	41	41	41	42	43	44
India	-4.8	-4.3	-3.2	-3.3	-3.3	-3.3	-7.0	-6.7	-6.4	-6.2	-5.9	-5.6	68	67	66	65	64	63
Indonesia	-2.7	-3.2	-2.3	-1.8	-1.7	-1.6	-1.8	-2.1	-1.8	-1.7	-1.9	2.0	24	23	23	22	21	20
Korea	3.8	4.3	2.5	1.2	0.6	-0.5	1.5	0.9	2.3	2.3	2.6	2.1	33	35	33	31	29	28
Czech Republic	-2.4	-1.2	-0.9	-1.3	-1.2	-2.3	-4.4	-2.8	-2.9	-2.9	-3.0	-2.5	46	48	49	50	50	51
Hungary	1.6	2.2	2.6	3.1	3.6	4.1	-1.9	-2.8	-2.9	-3.0	-2.8	-3.0	79	79	78	77	76	75
Poland	-3.5	-2.7	-3.6	-3.8	-4.3	-4.3	-3.9	-3.9	-3.5	-3.1	-3.0	-3.0	53	55	55	54	53	53
Romania	-3.9	-3.0	-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	3.9	2.8	0.9	-1.7	-3.2	-4.2	-0.7	-2.0	-4.2	-4.6	-3.2	-3.2	8	8	10	13	15	16
Turkey	-5.8	-6.9	-6.8	-6.5	-5.9	-5.1	-2.0	-2.2	-2.7	-2.7	-3.0	-3.0	39	38	37	36	36	36
Nigeria	4.0	2.3	0.4	0.7	0.5	0.1	-2.8	-2.6	-2.8	-3.3	-2.7	-2.8	NA	NA	NA	NA	NA	NA
South Africa	-6.1	-5.9	-5.7	-5.0	-4.1	-3.1	-4.4	-4.9	-4.8	-4.4	-3.7	-3.5	41	43	44	44	43	43
Argentina	0.1	0.0	0.2	0.2	3.0	1.0	-2.6	-2.7	-3.6	-3.8	0.0	-0.5	39	40	43	44	42	41
Brazil	-2.4	-3.5	-3.1	-3.0	-3.1	-3.2	-2.5	-3.6	-3.6	-2.8	-3.3	-3.3	59	59	60	60	60	60
Mexico	-1.6	-1.5	-4.2	-3.5	-3.2	-2.7	-2.6	-2.1	-2.0	-2.0	-2.0	-2.0	40	38	38	38	37	37
Venezuela	3.1	5.3	7.2	6.2	5.5	6.1	-5.0	-4.0	-4.0	-4.8	-4.6	-4.5	42	45	48	48	49	49

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. For Spain, fiscal deficits include the effect of financial support for banks in 2011 (€5.4bn) and 2012 (€33.5bn). Source: Citi Research

Figure 13. 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)		
	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Global	**0.1**	**-0.1**	**0.1**		**-0.4**	**-0.2**					**0.2**	**0.1**
Based on PPP weights	0.1	-0.1			-0.5	-0.3			-0.1		0.2	
Industrial Countries	**0.2**		**0.1**		**0.1**	**0.3**	**0.1**			**0.1**	**0.4**	**0.1**
United States	**0.6**		**-0.2**		**0.2**	**0.1**	**0.1**			**0.2**	**1.2**	**0.2**
Japan	**0.1**	**-0.2**				**0.2**		**0.1**	**-0.2**			
Euro Area		**0.2**	**0.4**			**0.1**					**0.1**	**-0.2**
Canada			-0.1			-0.1		-0.2	-0.3			
Australia		-0.1			-0.1			-0.1	-0.3		-1.2	-0.8
New Zealand												
Germany		0.3	0.2		0.2	-0.3		0.2	0.6		0.4	0.2
France		0.4	0.3		0.1	0.1					0.1	0.4
Italy		0.4	0.5					-0.3	-0.3			0.2
Spain		0.3	0.7		0.1			0.2	0.2			0.1
Greece		0.6	0.4					0.3	0.4		0.2	
Ireland		0.4	0.3					-2.9	-3.1		0.2	0.3
Portugal		1.1	0.5		-0.2	-0.2		0.2	0.2			
Netherlands		-0.1	0.1		0.2	0.2					-0.1	
Belgium					0.1							
Denmark			0.1				0.5					
Norway		-0.2	-0.1									
Sweden		-0.2	0.2									
Switzerland		0.2	0.3		0.1	0.4		0.1	0.6		0.1	0.3
United Kingdom		0.2	0.8			-0.2		0.1	0.4		0.2	0.5
Emerging Markets		**-0.1**	**-0.1**			**0.0**						**-0.1**
China												
Taiwan		-0.3										
India		-0.3	-0.2				0.4	-0.2	0.1			
Indonesia		-0.2	-0.5		0.1	0.1	0.0	-0.8	-0.1			-0.4
Korea					-0.1			0.3	0.3			
Czech Republic		-0.2	0.3			-0.1			1.2			
Hungary					-0.2	-0.5		-0.6	-1.2			
Poland					0.3	0.3		0.5	0.2		-0.4	-0.4
Romania					-0.3	-0.5						
Russia					-0.4	-0.3						-0.1
Turkey									-0.2			
Nigeria					-0.3	0.4						
South Africa												
Argentina												
Brazil		-0.1	-0.5		-0.2	-0.2		-0.2	0.6			0.1
Mexico		-0.7					-0.7	0.1	-2.7			
Venezuela												

Source: Citi Research

Figure 14. 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					
	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F	2012	2013F	2014F	2015F	2016F	2017F
Industrial Countries																		
United States	**1.80**	**2.30**	**3.00**	**3.50**	**3.75**	**4.00**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.28**	**1.31**	**1.31**	**1.34**	**1.35**	**1.35**
Japan	**0.85**	**0.76**	**0.70**	**1.00**	**1.25**	**1.50**	**81**	**99**	**109**	**110**	**110**	**110**	**104**	**130**	**144**	**148**	**149**	**149**
Euro Area	**1.57**	**1.60**	**1.83**	**2.00**	**2.25**	**2.50**	**1.28**	**1.31**	**1.31**	**1.34**	**1.35**	**1.35**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	1.87	2.25	3.05	3.75	3.75	3.90	1.00	1.04	1.10	1.10	1.08	1.07	1.28	1.37	1.44	1.48	1.46	1.44
Australia	3.28	3.65	4.25	4.73	5.50	5.50	1.02	0.95	0.88	0.88	0.90	0.91	1.24	1.39	1.49	1.52	1.51	1.48
New Zealand	3.61	3.98	5.25	6.15	6.40	6.40	0.82	0.81	0.78	0.75	0.75	0.75	1.57	1.62	1.68	1.78	1.80	1.80
Germany	1.57	1.60	1.83	2.00	2.25	2.50												
France	2.54	2.20	2.60	2.70	2.85	3.00												
Italy	5.49	4.43	4.51	5.50	5.25	5.00												
Spain	5.88	4.72	4.51	5.75	5.25	5.00												
Netherlands	1.95	1.94	2.23	2.40	2.55	2.80												
Belgium	2.43	2.44	2.86	2.80	3.05	3.20												
Denmark	1.51	1.75	1.98	2.15	2.50	2.75	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Norway	2.15	2.45	2.63	2.75	3.00	3.25	5.81	5.96	5.95	5.59	5.44	5.32	7.45	7.84	7.81	7.52	7.34	7.18
Sweden	1.59	2.00	2.23	2.30	2.55	2.80	6.73	6.63	6.70	6.43	6.29	6.17	8.63	8.71	8.81	8.65	8.49	8.33
Switzerland	0.64	0.82	1.00	1.20	1.45	1.70	0.94	0.94	0.96	0.95	0.95	0.95	1.20	1.24	1.26	1.28	1.28	1.28
United Kingdom	1.85	2.15	2.89	3.10	3.35	3.60	1.59	1.53	1.50	1.55	1.58	1.62	0.81	0.86	0.88	0.87	0.85	0.84
Emerging Markets																		
China	**3.33**	**3.32**	**3.45**	**3.57**	**3.70**	**4.07**	**6.31**	**6.17**	**6.14**	**6.02**	**6.02**	**6.04**	**8.11**	**8.10**	**8.06**	**8.10**	**8.13**	**8.15**
Taiwan	1.21	1.40	1.54	1.50	1.70	2.00	29.57	30.01	29.71	29.06	28.73	28.47	38.03	39.45	39.03	39.08	38.79	38.43
India	8.25	7.75	7.75	7.75	7.75	7.75	53.38	60.17	63.33	58.53	56.60	55.20	68.65	79.09	83.19	78.72	76.41	74.52
Indonesia	5.90	7.43	8.13	8.25	8.50	8.50	9361	10135	10462	10206	9967	9734	12038	13322	13743	13727	13455	13140
Korea	3.24	3.09	3.59	3.83	4.18	4.43	1127	1130	1086	1006	993	990	1449	1485	1426	1353	1340	1337
Czech Republic	2.75	1.97	1.96	2.32	2.61	2.61	19.5	19.8	19.5	18.2	17.7	17.4	25.1	26.0	25.6	24.4	23.9	23.4
Hungary	7.91	5.95	6.23	6.50	6.50	6.50	225	230	227	216	215	215	289	302	298	291	290	290
Poland	5.05	3.91	4.55	4.68	5.16	5.01	3.25	3.21	3.19	2.99	2.94	2.91	4.18	4.22	4.19	4.02	3.97	3.93
Romania	NA	NA	NA	NA	NA	NA	3.46	3.41	3.30	3.10	3.05	2.97	4.45	4.49	4.33	4.17	4.12	4.01
Russia	NA	NA	NA	NA	NA	NA	31.1	32.8	34.4	33.4	33.3	33.3	40.0	43.1	45.2	44.9	44.9	44.9
Turkey	NA	NA	NA	NA	NA	NA	1.80	1.92	2.01	2.06	2.04	2.01	2.32	2.53	2.65	2.77	2.75	2.71
Nigeria	NA	NA	NA	NA	NA	NA	159	159	164	168	171	175	204	209	215	226	231	236
South Africa	7.23	6.81	8.00	9.15	9.20	9.25	8.21	9.82	10.26	10.48	10.57	10.63	10.56	12.91	13.48	14.09	14.26	14.35
Argentina	NA	NA	NA	NA	NA	NA	4.54	5.46	6.74	8.72	13.45	18.82	5.84	7.18	8.85	11.73	18.15	25.41
Brazil	9.31	8.98	11.25	12.00	10.88	10.25	1.95	2.22	2.36	2.39	2.34	2.28	2.51	2.92	3.10	3.21	3.16	3.08
Mexico	5.70	5.52	6.55	7.05	7.46	7.95	13.2	12.7	12.4	12.3	12.3	12.3	16.9	16.6	16.3	16.6	16.6	16.6
Venezuela	11.26	10.91	10.67	15.50	15.50	15.50	4.29	6.13	9.50	9.75	10.50	12.71	5.52	8.06	12.48	13.11	14.18	17.15

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

Figure 15. Short Rates (End of Period), as of 21 Aug 2013 (Percent)

	Current	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15
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	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25
Australia	2.50	2.50	2.50	2.50	2.75	3.00	3.00
New Zealand	2.50	2.50	2.75	3.00	3.25	3.75	3.75
Denmark	0.20	0.10	0.10	0.20	0.30	0.30	0.30
Norway	1.50	1.50	1.50	1.50	1.50	1.75	1.75
Sweden	1.00	1.00	1.00	1.00	1.00	1.00	1.00
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**	**3.00**	**3.00**	**3.25**	**3.25**

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 16. 10-Year Yield Forecasts (Period Average), as of 21 Aug 2013 (Percent)

	Current	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15
United States	**2.83**	**2.70**	**2.80**	**3.00**	**3.15**	**3.25**	**3.40**
Japan	**0.75**	**0.80**	**0.70**	**0.60**	**0.70**	**0.80**	**0.80**
Euro Area (Germany)	**1.84**	**1.70**	**1.80**	**1.80**	**1.80**	**1.90**	**2.00**
Canada	2.68	2.65	2.75	2.95	3.15	3.25	3.55
Australia	3.75	4.00	4.10	4.10	4.30	4.50	4.50
New Zealand	4.60	4.75	4.90	5.10	5.40	5.60	6.00
Denmark	1.97	1.80	1.90	1.90	1.90	2.00	2.10
Norway	2.82	2.55	2.60	2.60	2.65	2.75	2.85
Sweden	2.37	2.10	2.15	2.20	2.25	2.35	2.45
Switzerland	1.01	0.95	1.03	1.03	1.03	1.10	1.17
United Kingdom	2.69	2.70	2.80	2.85	2.90	3.00	3.15

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 17. 10-Year Yield Spreads (Period Average), as of 21 Aug 2013

	Spread vs. US$						Spread vs. Germany					
	Current	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	Current	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**101**	**102**	**102**	**122**	**137**	**138**
Japan	**-205**	**-202**	**-222**	**-232**	**-237**	**-248**	**-104**	**-100**	**-120**	**-110**	**-100**	**-110**
Euro Area	**-101**	**-102**	**-102**	**-122**	**-137**	**-138**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	-15	-5	-5	-5	0	0	86	97	97	117	137	138
Australia	94	132	132	112	117	127	195	234	234	234	255	265
New Zealand	180	209	214	214	230	240	281	311	316	337	367	378
France	-2	-32	-32	-42	-57	-58	57	70	70	80	80	80
Italy	147	198	198	153	113	112	246	300	300	275	250	250
Spain	161	198	198	153	113	112	2.6	300	300	275	250	250
Netherlands	-56	-62	-62	-82	-97	-98	43	40	40	40	40	40
Belgium	-11	-7	-2	-12	-32	-38	88	95	100	110	105	100
Austria	-55	-57	-57	-82	-97	-98	44	45	45	40	40	40
Finland	-71	-72	-72	-92	-107	-108	28	30	30	30	30	30
Ireland	108	98	98	78	63	62	207	200	200	200	200	200
Denmark	-86	-92	-92	-112	-127	-128	13	10	10	10	10	10
Norway	-1	-17	-22	-42	-52	-53	98	85	80	80	85	85
Sweden	-46	-62	-67	-82	-92	-93	53	40	35	40	45	45
Switzerland	-182	-177	-179	-199	-214	-218	-83	-75	-77	-77	-77	-80
United Kingdom	-14	0	0	-15	-25	-25	85	102	102	107	112	112

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 18. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as of 21 Aug 2013

Country	Current Rate (%)	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14	Total Cumulative Rate Moves Expected
Philippines	3.50	0	0	25	50	25	100
Brazil	8.50	50	25	0	0	0	75
Turkey	4.50	0	0	0	0	50	50
Poland	2.50	0	0	0	0	50	50
Indonesia	4.75	25	0	0	0	0	25
Thailand	2.50	0	0	0	0	25	25
Korea	2.50	0	0	0	0	0	0
Mexico	4.00	0	0	0	0	0	0
Czech	0.05	0	0	0	0	0	0
China	3.00	0	0	0	0	0	0
Israel	1.25	-25	0	25	0	0	0
Chile	5.00	-25	-25	0	0	50	0
South Africa	5.00	0	0	-25	0	0	-25
Hungary	4.00	-20	-30	0	0	25	-25
India	7.25	0	0	-50	0	0	-50
Russia	8.25	-50	-25	0	0	0	-75

Source: Citi Research

Figure 19. Foreign Exchange Forecasts (End of Period), as of 21 Aug 2013

	vs. USD						vs. EUR					
	Current	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14	Current	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.33**	**1.33**	**1.31**	**1.30**	**1.31**	**1.33**
Japan	**97**	**103**	**108**	**110**	**110**	**110**	**130**	**137**	**141**	**144**	**145**	**146**
Euro Area	**1.33**	**1.33**	**1.31**	**1.30**	**1.31**	**1.33**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	1.03	1.06	1.09	1.10	1.10	1.10	1.38	1.41	1.42	1.44	1.45	1.46
Australia	0.92	0.91	0.89	0.88	0.88	0.88	1.46	1.46	1.47	1.48	1.49	1.51
New Zealand	0.81	0.81	0.80	0.79	0.78	0.77	1.65	1.65	1.65	1.66	1.69	1.72
Norway	5.91	5.99	6.05	6.02	5.92	5.81	7.88	7.96	7.92	7.86	7.78	7.70
Sweden	6.52	6.68	6.77	6.77	6.68	6.60	8.69	8.88	8.86	8.83	8.79	8.75
Switzerland	0.93	0.94	0.95	0.96	0.96	0.95	1.24	1.25	1.25	1.25	1.26	1.27
United Kingdom	1.56	1.52	1.49	1.48	1.50	1.51	0.85	0.87	0.88	0.88	0.88	0.87
China	**6.11**	**6.16**	**6.17**	**6.16**	**6.13**	**6.09**	**8.20**	**8.20**	**8.10**	**8.00**	**8.10**	**8.10**
India	61.8	63.9	64.6	64.3	62.9	61.5	82.3	84.8	84.6	83.9	82.7	81.5
Korea	1114	1127	1116	1099	1076	1052	1485	1497	1461	1434	1414	1394
Poland	3.17	3.17	3.24	3.24	3.17	3.11	4.23	4.21	4.24	4.23	4.18	4.12
Russia	32.9	33.9	34.5	34.7	34.3	34.0	43.9	45.1	45.2	45.2	45.2	45.1
South Africa	10.00	10.12	10.17	10.23	10.29	10.35	13.33	13.43	13.32	13.35	13.53	13.71
Turkey	1.94	1.98	1.99	2.01	2.02	2.04	2.58	2.63	2.61	2.62	2.66	2.70
Brazil	2.34	2.32	2.34	2.35	2.36	2.38	3.12	3.08	3.06	3.07	3.11	3.15
Mexico	12.9	12.6	12.5	12.4	12.4	12.3	17.1	16.8	16.3	16.2	16.3	16.4

Source: Citi Research

Figure 20. Foreign Exchange Forecasts (End of Period), as of 21 Aug 2013

	vs. JPY					
	Current	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14
United States	**97**	**103**	**108**	**110**	**110**	**110**
Japan	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Euro Area	**130**	**137**	**141**	**144**	**145**	**146**
Canada	94	97	99	100	100	100
Australia	89	94	96	97	97	97
New Zealand	78.7	83.3	85.7	86.5	85.6	84.7
Norway	16.5	17.2	17.8	18.3	18.6	18.9
Sweden	15.0	15.4	15.9	16.3	16.5	16.7
Switzerland	105	110	113	115	115	115
United Kingdom	152	157	161	163	165	167
China	**16**	**17**	**17**	**18**	**18**	18
India	1.58	1.62	1.67	1.71	1.75	1.79
Korea	11.42	10.91	10.36	9.99	9.78	9.57
Poland	30.7	32.6	33.3	34.0	34.6	35.3
Russia	3.0	3.0	3.1	3.2	3.2	3.2
South Africa	9.8	10.2	10.6	10.8	10.7	10.6
Turkey	50.3	52.1	54.0	54.8	54.4	54.1
Brazil	41.7	44.5	46.0	46.7	46.5	46.3
Mexico	7.6	8.2	8.6	8.9	8.9	8.9

Source: Citi Research

Country Commentary

United States

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Recovery appears to be weathering the worst of the fiscal headwinds with growth estimated at a 1½% annual rate in the first half and signs that activity was picking up heading into Q3. Housing, capex, car sales and payrolls all are on healthy upswings and new cyclical lows in jobless claims in mid-August suggest little spillover from cuts in federal spending. Higher interest rates have blunted some of the massive loosening in financial conditions but the Fed is looking to preserve accommodation as the start of tapering approaches. Fiscal deficits may drop below 3½% next year, and so the impetus for major budget reforms has waned.

Fed officials continue to emphasise that scaling back QE still would leave policy on a highly accommodative path where no rate hikes are planned for a long time. We expect that tapering in September will mark a shift to greater reliance on forward guidance to supplant QE and possibly enhance accommodation by altering thresholds for exit strategies. We think unemployment will be below 7% before QE ends and that rate hikes may be delayed until the jobless rate is closer to 6%. A formal rewrite of exit strategy principles may be delayed until QE is near completion.

The outlook for inflation remains softer than policymakers' medium-term goal of 2%. Slower growth abroad has reduced pressures on domestic goods prices and labour costs remain subdued. We expect a gradual move closer to the 2% target underpinned by domestic demand and an eventual pickup in global growth. Labour costs should firm somewhat with continued gains in hiring demand.

Figure 21. United States — Economic Forecasts, 2012-2014F

					2013				2014			
		2012	2013F	2014F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
GDP	SAAR				1.1%	2.0%	2.3%	2.7%	2.7%	2.9%	3.0%	3.1%
	YoY	2.8%	1.6%	2.7%	1.3	1.5	1.4	2.0	2.4	2.6	2.8	2.9
Domestic Demand	SAAR				0.5	2.0	2.2	2.7	2.9	3.1	3.4	3.3
	YoY	2.4	1.6	2.8	1.5	1.5	1.5	1.8	2.4	2.7	3.0	3.2
Consumption	SAAR				2.3	1.6	2.6	2.8	2.9	3.1	3.4	3.4
	YoY	2.2	2.0	2.9	1.9	1.8	2.0	2.3	2.5	2.8	3.0	3.2
Business Investment	SAAR				-4.6	6.1	5.1	5.3	4.5	4.5	3.7	4.1
	YoY	7.3	3.0	4.7	2.4	2.8	4.0	2.9	5.2	4.8	4.5	4.2
Housing Investment	SAAR				12.5	12.6	11.0	13.3	17.7	16.5	19.5	15.4
	YoY	12.9	13.5	15.6	12.9	14.7	13.9	12.4	13.6	14.6	16.7	17.3
Government	SAAR				-4.2	-0.9	-2.2	-1.2	-0.6	-0.3	0.0	0.1
	YoY	-1.0	-2.4	-0.8	-1.8	-2.1	-3.5	-2.1	-1.2	-1.1	-0.5	-0.2
Exports	SAAR				-1.3	7.7	3.5	5.9	6.1	6.0	5.4	6.3
	YoY	3.5	2.4	5.7	1.0	1.9	2.7	3.9	5.8	5.4	5.9	6.0
Imports	SAAR				0.6	6.2	4.1	5.2	6.7	7.6	7.3	7.0
	YoY	2.2	1.7	6.3	0.1	1.0	1.9	4.0	5.5	5.9	6.7	7.1
PCE Deflator	YoY	1.8	1.3	2.0	1.4	1.1	1.3	1.4	1.6	2.2	2.1	2.1
Core PCE Deflator	YoY	1.8	1.2	1.9	1.5	1.2	1.3	1.4	1.6	1.9	2.0	2.1
Unemployment Rate	%	8.1	7.4	6.8	7.7	7.6	7.3	7.1	7.0	6.9	6.8	6.6
Federal Gov't Balance (Fiscal Year)	$Bn	-1,098	-625	-530								
	% of GDP	-6.8	-3.8	-3.1								
General Gov't Balance (Cal Year)	% of GDP	-8.1	-4.8	-4.3								
Federal Debt	% of GDP	70	72	72								
General Gov't Debt	% of GDP	103	106	108								
Current Account	US$bn	-440	-468	-488	-425	-460	-468	-482	-485	-492	-503	-513
	% of GDP	-2.7	-2.8	-2.8	-2.6	-2.8	-2.8	-2.8	-2.8	-2.8	-2.9	-2.9
S&P 500 Profits (US$ Per Share)	YoY	6.1	5.5	6.2	5.0	6.3	4.2	7.6	6.2	5.6	7.0	5.9

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

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Japan

GDP growth in the second quarter (2.6% QoQ annualised) somewhat undershot general expectations but our economic scenario remains largely the same: we expect solid growth to continue until the first quarter of 2014 before the consumption tax hike in April 2014 puts a strong brake on activity. Meanwhile, under the assumption that the tax hike is implemented as planned, we expect a sharp contraction in activity, driven by plunging household demand, in the second quarter of 2014. While GDP will likely return to positive growth in the third quarter of 2014, a sharp fall in household demand is likely to hit smaller firms (especially nonmanufacturers) and to weaken growth in incomes and profits, as in 1997.

The most important factor to monitor over the near-term is PM Abe's final decision on whether or not to implement the consumption tax hike (likely in late September or early October). In our view, the probability that PM Abe will go ahead with the current plan is 60-70% while the possibility of postponement of the tax hike is 30-40%. If the tax hike is implemented, the government is very likely to introduce another fiscal stimulus package in order to mitigate its negative impact. Meanwhile, a special session of the Parliament where PM Abe's growth strategy (the third arrow) is discussed will start in mid-October. There were some news headlines regarding a possible reduction in the corporate tax rate in recent weeks but concrete progress seems unlikely until the autumn.

Core inflation (excluding just fresh food) turned positive (+0.4% YoY) in June, for the first positive reading since April 2012, albeit mostly thanks to higher energy prices. We expect core CPI to accelerate to +0.7% YoY in August. As inflation is roughly in line with the Bank of Japan's (BoJ) projections for now, additional BoJ easing action within this year is quite unlikely. But core inflation will likely stabilise slightly below 1% next year with stagnant wage growth from the negative shock from the tax hike, and this probably would trigger additional easing in the first half of 2014.

Figure 22. Japan — Economic Forecasts, 2012-14F

					2013				2014			
		2012	2013F	2014F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	2.0%	2.0%	2.0%	0.1%	0.9%	3.0%	3.7%	3.8%	1.9%	1.4%	0.8%
	SAAR				3.8	2.6	4.8	3.7	4.3	-5.0	2.9	1.1
Domestic Demand	YoY	2.8	1.7	1.0	0.6	1.0	2.3	3.0	3.1	0.9	0.4	-0.3
	SAAR				2.2	1.8	4.0	4.1	2.6	-6.8	2.2	1.0
Private Consumption	YoY	2.4	2.0	0.6	1.1	1.8	2.5	2.8	3.4	-0.3	-0.2	-0.7
	SAAR				3.4	3.1	1.2	3.3	6.1	-10.7	1.4	1.2
Business Investment	YoY	1.8	-2.1	4.1	-5.1	-4.9	-0.7	2.6	4.3	4.2	4.5	3.4
	SAAR				-0.7	-0.4	4.1	7.6	6.1	-0.6	5.0	3.3
Housing Investment	YoY	3.0	8.1	-6.0	9.5	7.0	8.6	7.2	3.3	-5.2	-9.9	-11.7
Public Investment	YoY	12.5	11.9	1.5	13.4	9.8	13.0	11.5	5.0	5.0	0.4	-3.8
Exports	YoY	-0.1	3.2	6.3	-3.5	-0.5	6.5	11.0	8.5	6.5	5.5	5.0
	SAAR				16.8	12.5	9.1	5.9	6.6	4.4	5.0	3.9
Imports	YoY	5.5	2.0	0.2	0.3	0.5	1.5	5.9	3.5	0.1	-0.7	-2.0
	SAAR				4.1	6.2	3.9	9.3	-4.8	-7.1	0.7	3.4
CPI	YoY	0.0	0.0	2.1	-0.6	-0.3	0.6	0.5	0.6	2.7	2.7	2.6
Core CPI	YoY	-0.1	0.2	2.2	-0.3	0.0	0.6	0.6	0.6	2.7	2.7	2.6
Nominal GDP	YoY	1.1	1.5	2.8	-0.8	0.5	2.7	3.5	3.9	3.0	2.5	2.0
Current Account	¥ tn	5.2	7.4	12.6	3.1	8.2	9.6	8.6	10.7	12.7	13.5	13.6
	% of GDP	1.1	1.5	2.5	0.7	1.7	2.0	1.7	2.2	2.6	2.7	2.7
Unemployment Rate	%	4.4	4.0	3.7	4.2	4.0	3.9	3.8	3.7	3.6	3.7	3.8
Industrial Production	YoY	0.2	-0.4	3.5	-7.9	-3.1	2.4	6.1	6.5	4.1	2.4	1.4
Corporate Profits (Fiscal Year)	YoY	5.0	40.0	5.0								
General Govt. Balance (Fiscal Year)	% of GDP	-10.7	-9.8	-8.0								
General Govt Debt	% of GDP	237	244	246								

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

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Euro Area

The better-than-expected 2Q GDP data, showing the first gain in seven quarters, together with the more constructive tone from recent surveys, call for some upward adjustment in our GDP forecasts. We raise the 2013 average by 0.2ppt to -0.5% and the 2014 average by 0.4ppt to 0.6%. We must go back to 3Q 2009 to find an upward adjustment of a similar magnitude. As a result of better growth dynamics, we no longer expect the ECB to cut rates in Q4, with the main refi rate and the deposit rate staying unchanged (at 0.5% and 0% respectively) for a long period. A cut in one or both interest rates could come back on the agenda in the event of a sharp strengthening of the euro or 'unwarranted' increases in market rates, but even then the authorities would probably aim to talk down the currency and rate expectations first.

Germany and France are outperforming in the upswing, with some evidence of re-stocking as surveys suggest that inventories remain below desired levels. Net trade is also showing signs of contributing to GDP growth. While the recovery is probably here to stay, we continue to expect that the magnitude of upturn will likely disappoint given the many structural impediments across the euro area. The non-exhaustive list includes: widespread private sector deleveraging, limited credit availability, still adverse financing conditions and additional fiscal tightening. Hence, we do not expect growth in 2014 to improve significantly from the 0.6% QoQ SAAR pace that we envisage for 2H-13.

With GDP growth remaining below potential, and muted domestic demand dynamics, the excessive debt problems cannot be fixed and the large amount of excess capacity cannot be absorbed fast enough to lead to a fall in unemployment. This means that political risk needs watching carefully, with a particular focus on Italy. The German elections are also an important sign-post in late September since the Bundestag will be required to give its approval to any financial assistance programmes, either in the form of OSI in Greece, a second programme for Portugal or precautionary credit line under the ESM framework for Ireland.

Figure 23. Euro Area — Economic Forecasts, 2012-14F

					2013				2014			
		2012	**2013F**	**2014F**	**1Q**	**2QF**	**3QF**	**4QF**	**1QF**	**2QF**	**3QF**	**4QF**
Real GDP	YoY	-0.5%	-0.5%	0.6%	-1.1%	-0.7%	-0.5%	0.3%	0.7%	0.6%	0.6%	0.6%
	SAAR	-	-	-	-1.1	1.1	0.4	0.7	0.6	0.6	0.7	0.6
Final Domestic Demand	YoY	-1.7	-1.1	0.2	-2.0	-1.2	-0.9	-0.2	0.3	0.2	0.3	0.3
Private Consumption	YoY	-1.3	-0.4	0.3	-1.3	-0.5	-0.3	0.5	0.5	0.3	0.3	0.2
Government Consumption	YoY	-0.4	-0.3	-0.2	-0.5	-0.2	-0.1	-0.2	-0.1	-0.3	-0.3	-0.3
Fixed Investment	YoY	-4.2	-4.0	0.6	-5.9	-4.3	-3.7	-2.1	0.1	0.4	0.8	1.0
— Business Equipment	YoY	-3.5	-4.3	2.6	-6.4	-5.0	-3.8	-1.8	1.8	2.7	3.1	3.0
— Construction	YoY	-4.8	-4.0	-1.6	-5.5	-3.9	-3.9	-2.8	-2.0	-1.9	-1.4	-1.0
Stocks (Contrib. to Y/Y GDP Growth)		-0.3	0.0	0.0	0.0	-0.1	0.1	0.1	0.1	0.1	0.0	-0.1
Exports	YoY	2.9	0.7	2.8	0.5	0.2	0.1	1.7	3.3	2.8	2.7	2.6
Imports	YoY	-0.7	-0.7	2.3	-1.9	-1.1	-0.7	1.1	2.9	2.3	2.1	1.9
CPI	YoY	2.5	1.5	1.4	1.9	1.4	1.4	1.5	1.4	1.6	1.3	1.3
CPI Ex Unprocessed Food and Energy	YoY	1.8	1.4	1.2	1.5	1.3	1.3	1.4	1.2	1.3	1.1	1.1
Unemployment Rate	YoY	11.4	12.2	12.3	12.0	12.1	12.3	12.3	12.2	12.3	12.3	12.3
Current Account Balance	EUR bn	118.3	242.2	224.2								
	% of GDP	1.2	2.5	2.3								
General Government Balance	EUR bn	-352.7	-281.1	-241.4								
	% of GDP	-3.7	-2.9	-2.5								
Primary Balance	% of GDP	-0.6	0.1	0.5								
General Government Debt	EUR bn	8,794.6	9,219.8	9,549.7								
	% of GDP	92.7	96.0	97.2								
Gross Operating Surplus	YoY	-0.3	-0.1	0.2								

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

Germany

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This month, we revise up our GDP growth forecasts to 0.6% and 1.7% for 2013 and 2014 (from 0.3% and 1.5%). Q2 GDP growth (0.7%QQ) came in slightly stronger than expected and recent data have also been fairly strong, notably for industrial production, suggesting positive (albeit moderating) growth into Q3. Net trade is likely to be a modest drag on growth this year, with high consumer confidence and robust wage gains lifting household spending. Business investment, which probably registered the first increase in seven quarters in Q2, also is likely to gain some momentum. Meanwhile, recent polling trends suggest that the chances of the current ruling coalition of CDU/CSU&FDP continuing in power post-election are about even with those of a grand coalition of CDU/CSU&SPD.

France

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We raise our 2013 GDP forecasts to 0.2% from -0.2% last month after a better than expected 0.5% QQ gain in 2Q. We also lift our 2014 GDP forecast by 0.3pp to 0.8% to reflect the continued gains in recent surveys. Overall, the recovery remains fragile, with unemployment still trending up, while muted corporate profits and tax uncertainties leave many businesses in a wait-and-see mode. Coming weeks will be important for the government's ability to deliver on pension reforms: demonstrations are planned on September 10, ahead of the presentation by PM Ayrault of his plan after a final round of consultations with trade unions and employers on August 26-27. Public sector employees are also planning a day of demonstration on August 29 to vent frustration about the erosion of purchasing power.

Italy

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Recent data suggest GDP may return to modest expansion in H2, supported by a significantly less-tight fiscal stance (partly related to repayments of government arrears). We lift our GDP forecasts by 0.4pp for 2013 and by 0.5pp for 2014, although we still expect the economy will shrink on average in both years. In 2014, additional fiscal consolidation is likely which, together with still tight financing conditions, will cap domestic demand. The fiscal deficit is re-widening and risks of political instability remain high – two risk factors for further rating actions and renewed market tensions. The political backdrop hinders scope for structural reforms and public spending cuts. We do not see the debt ratio stabilising in the next few years, and we think some form of debt restructuring (maturity lengthening and/or coupon reductions) may be likely eventually.

Figure 24. Germany, France and Italy — Economic Forecasts, 2012-14F

		Germany			France			Italy		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	0.9%	0.6%	1.7%	0.0%	0.2%	0.8%	-2.4%	-1.6%	-0.1%
Final Domestic Demand	YoY	0.3	0.7	2.1	-0.1	0.0	0.4	-4.7	-2.5	-0.5
Private Consumption	YoY	0.7	1.5	2.0	-0.3	0.3	0.5	-4.3	-2.2	-0.6
Government Consumption	YoY	1.2	0.5	0.8	1.4	1.3	0.5	-2.9	-0.1	-1.0
Fixed Investment	YoY	-2.0	-1.8	3.7	-1.2	-2.4	-0.1	-8.0	-6.2	0.3
Exports	YoY	4.5	0.0	2.9	2.5	0.9	2.2	2.2	-0.4	2.6
Imports	YoY	2.6	0.3	3.8	-0.9	0.6	1.4	-7.8	-3.1	1.8
CPI	YoY	2.0	1.7	1.9	2.2	1.1	1.7	3.3	1.5	1.3
Unemployment Rate	%	5.5	5.6	5.5	9.8	10.8	10.9	10.7	12.3	12.6
Current Account	€bn	187.7	188.0	170.2	-44.4	-32.7	-17.1	-8.4	22.0	32.5
	% of GDP	7.0	6.9	6.0	-2.2	-1.6	-0.8	-0.5	1.4	2.1
General Govt. Balance	€bn	4.1	-2.9	7.1	-98.2	-78.1	-67.7	-47.6	-55.2	-47.5
	% of GDP	0.2	-0.1	0.3	-4.8	-3.8	-3.2	-3.0	-3.5	-3.0
Primary Balance	% of GDP	2.6	2.3	2.6	-2.3	-1.2	-0.6	2.5	1.9	2.3
General Govt. Debt	% of GDP	81.9	80.4	76.8	90.2	93.6	95.0	127.0	132.8	136.6
Gross Trading Profits	YoY	0.1	1.4	2.2	-0.9	0.0	1.0	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, ISTAT and Citi Research forecasts

Spain

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We are lifting our growth forecasts for 2013 (by 0.3pp to -1.4%) and 2014 (by 0.7pp to -0.2%), reflecting better Q2 data, reduced fiscal drag and lower inflation. We still think, however, that the ongoing internal adjustments (private deleveraging, fiscal balance and housing) together with tight financing conditions are likely to leave the economy with almost no growth until early 2015. We see 2013 fiscal deficit (net of bank recap costs) narrowing marginally to 6.5% of GDP, while extra bank recap needs may also emerge. The debt ratio keeps rising and we think that some form of debt restructuring (maturity extensions/coupon reductions) may be likely eventually.

Greece

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Recent data suggest the recession may be less deep than we expected, and hence we have revised up our GDP forecasts by 0.6pp (to -4.4%) in 2013 and by 0.4pp (to -3.9%) in 2014. Nevertheless, the bailout programme probably is off-track again, due to shortfalls in privatisation revenues and poor tax collection. Major uncertainties lie ahead, with key discussions on further public debt restructuring likely before year-end. A large debt relief from official lenders would probably be the only viable (but politically painful) option to restore fiscal sustainability. We still think risks of Greece leaving the euro remain high, although this is not our base case.

Ireland

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Ireland's economy slipped back into renewed recession from Q2-2012 to Q1-2013, but recent data suggest that period of decline is over. Industrial production surged 3.5% QoQ (non annualised) in Q2, the strongest gain since Q1-2010 with a strong gain in new orders as well (up 6.4% QoQ). In all, we estimate that real GDP rose 1.0% QoQ in Q2, and we are lifting our forecast for the full year from minus 0.2% to plus 0.2%. The public debt/GDP ratio is likely to peak this year, but decline will be slow and this ratio will probably remain above 100% for many years to come.

Portugal

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The strong Q2 GDP print (+1.1% QQ) and gains in other monthly indicators are behind the revision of our GDP forecasts to -1.9% for 2013 and -0.9% for 2014 (versus -3.0% and -1.4% last month). The reduction in fiscal tightening will likely cause more overshooting of budget targets and a smaller likelihood of a smooth exit from the bailout programme in mid-14. More fiscal austerity will be necessary over the next couple of years, especially if (as we expect) a second bailout programme is agreed. With about half of the debt in official hands, we think some further OSI and perhaps PSI (in the form of coupon-reduction/maturity extensions) may eventually occur to restore debt sustainability.

Figure 25. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2012-14F

		Spain			Greece			Ireland			Portugal		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.4%	-1.4%	-0.2%	-6.4%	-4.4%	-3.9%	0.1%	0.2%	2.5%	-3.2%	-1.9%	-0.9%
Final Domestic Demand	YoY	-4.0	-3.7	-1.1	-9.7	-7.0	-5.3	-1.1	-1.9	-0.4	-6.9	-4.1	-2.8
Private Consumption	YoY	-2.2	-2.6	-0.6	-9.1	-7.1	-5.2	-0.3	-0.8	0.5	-5.6	-3.3	-1.8
Government Consumption	YoY	-3.7	-3.6	-2.0	-4.0	-3.5	-4.6	-3.8	-2.0	-1.6	-4.4	-1.6	-2.5
Fixed Investment	YoY	-9.1	-7.0	-1.8	-19.0	-11.3	-6.8	-0.7	-7.0	-2.7	-14.5	-10.1	-7.4
Exports	YoY	3.0	3.3	4.4	-2.0	1.3	1.5	1.6	-0.6	7.0	3.3	4.6	3.6
Imports	YoY	-5.0	-3.1	1.9	-9.3	-4.1	-3.6	0.0	1.7	3.6	-6.6	-2.0	-1.1
CPI	YoY	2.4	1.8	0.9	1.0	-0.4	-0.9	0.7	-0.4	1.4	2.8	0.6	0.1
Unemployment Rate	%	25.0	26.6	27.6	24.1	28.3	31.2	14.7	13.5	13.3	15.7	16.8	17.3
Current Account	€bn	-11.5	12.0	21.5	-6.5	-0.7	1.3	7.3	7.5	12.0	-2.6	1.9	5.1
	% of GDP	-1.1	1.2	2.0	-3.4	-0.4	0.8	4.4	4.6	7.1	-1.5	1.2	3.2
General Govt. Balance	€bn	-111.6	-67.4	-61.7	-19.4	-9.5	-8.2	-12.5	-13.5	-9.1	-10.6	-9.8	-9.2
	% of GDP	-10.6	-6.5	-5.9	-10.0	-5.3	-4.9	-7.6	-8.2	-5.4	-6.4	-6.0	-5.7
Primary Balance	% of GDP	-80.3	-32.6	-23.0	-5.0	-1.2	-0.7	-3.9	-3.2	-0.3	-2.0	-1.6	-1.3
General Govt. Debt	% of GDP	84.2	93.6	103.2	156.9	179.3	196.8	118.6	124.6	122.2	123.8	133.6	151.1

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: INE, Haver Analytics, Eurostat and Citi Research forecasts

Netherlands

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Dutch 2Q GDP matched our expectations, showing a drop of 0.2% QQ, leaving the level of economic activity 1.8% lower than in the same quarter last year. Domestic demand contributed nothing to GDP, a situation consistent with the continued increase in the jobless rate (up to 8.7% in July versus 6.5% a year ago). With house prices expected to fall further in the rest of 2013, it is difficult to envisage any gains in consumer spending much before the start of the 2H-14, although better performance from large trading partners may support Dutch exports. We anticipate a clearer recovery only during 2014, coming from better investment trends.

Belgium

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We leave our forecast for Belgium unchanged. 2Q GDP rose by 0.1% QQ after a flat reading in Q1, leaving the YY rate at -0.1% vs. -0.6% YY in 1Q. Sentiment surveys have been improving throughout 2Q and the July survey suggests that the gradual uptrend continued into the third quarter. Economic activity should improve gradually thanks to the better performance in Germany and France. Nevertheless, we expect Belgium to underperform compared to France, given the strong focus on budget consolidation after some criticism from the European Commission in June. The main catalyst for investors remains the 2014 May 25 legislative elections.

Slovakia

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We slightly increased our GDP forecast to 0.8% in 2013 (0.5% previously) and 1.8% next year reflecting a better outlook for foreign demand and the better-than-expected GDP growth in 2Q13 (0.3% QQ and 0.9% YY probably lifted by net exports). Our forecast of milder GDP gains in 2H13 (0.3% cumulatively) reflects weaker prospects for industry. We expect industrial output growth to decelerate to 0.9% YY in 3Q13 from 2.3% in 2Q13, following survey evidence of weaker export orders and capacity use.

Slovenia

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We decided to keep our GDP forecast unchanged reflecting offsetting factors. The contractions in industrial output and construction eased further in June (to -0.6% YY and to -11.3% respectively, both slightly better than we expected). However, exports decreased, perhaps reflecting temporary distortions from a drop in the number of working days. Though external demand prospects are improving, we think that the announcement of complex banking stress test results by end-2013 is likely to keep uncertainty high, exacerbating negative consequences for domestic demand from tight fiscal policy and the credit crunch.

Figure 26. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2012-2014F

		Netherlands			Belgium			Slovakia			Slovenia		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.3%	-1.3%	0.3%	-0.3%	-0.2%	0.4%	2.0%	0.8%	1.8%	-2.2%	-2.2%	-0.3%
Final Domestic Demand	YoY	-1.8	-2.9	-0.2	-0.5	-0.7	0.0	-1.4	-1.5	1.6	-3.8	-2.9	0.1
Private Consumption	YoY	-1.6	-2.0	-0.3	-0.3	-0.1	-0.2	-0.6	-0.3	0.8	-2.8	-4.2	-0.1
Government Consumption	YoY	-0.7	-0.9	-0.6	0.4	0.2	0.3	-0.6	0.2	0.1	-1.6	-0.5	-0.6
Investment (Ex Stocks)	YoY	-4.0	-8.2	0.4	-0.6	-3.0	0.4	-3.7	-5.4	4.3	-9.1	-2.1	1.4
Exports	YoY	3.2	1.2	1.4	0.7	-1.1	2.2	8.6	3.1	4.1	1.3	2.9	2.1
Imports	YoY	3.3	-1.4	0.8	0.5	-1.6	2.2	2.8	0.8	3.8	-4.3	2.6	2.6
CPI (Average)	YoY	2.8	3.0	1.9	2.8	1.3	1.9	3.6	1.7	1.9	2.6	2.3	2.8
Unemployment Rate	%	6.4	8.3	8.8	7.6	8.7	9.3	13.6	14.6	14.8	8.9	10.2	11.1
Current Account	% of GDP	10.1	9.4	8.9	-1.6	-2.0	-1.6	2.2	3.6	3.0	2.3	2.2	3.2
General Govt Balance	% of GDP	-4.1	-3.9	-3.4	-3.9	-3.2	-2.9	-4.3	-3.4	-3.2	-4.0	-9.1	-6.6
Primary Balance	% of GDP	-2.2	-2.0	-1.4	-0.5	0.4	0.7	-2.9	-2.0	-1.7	-1.9	-6.4	-3.7
General Govt Debt	% of GDP	71.3	74.9	76.2	99.8	102.3	103.3	52.1	55.3	56.1	54.1	63.3	68.3

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

UK

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With the upturn in housing, consumer spending and exports, we are again lifting our UK growth forecasts. We expect Q3 growth to stay around the Q2 pace (0.6% QoQ), or perhaps even a little above it, and now forecast growth of 1.1% for 2013 as a whole, 2.1% in 2014 and 2.7% in 2015, up from 0.9%, 1.3% and 1.8% respectively last month. This continues our marked trend of UK forecast upgrades this year: in all, since January, we have lifted our UK growth forecasts by 0.7% for 2013, and by 1.4% for both 2014 and 2015. Our latest forecasts are a little above the July consensus (1.0% for 2013, 1.7% for 2014) – but the consensus probably also is now going higher. Our forecasts also are a little below the MPC's central projections, which are for growth of 1.5% in 2013 and 2.7% in 2014.

Nevertheless, unless there are clear risks of inflation or financial instability, the MPC's guidance framework indicates the Committee will not even contemplate tightening until the jobless rate falls to 7%. We believe the journey to a 7% jobless rate will prove quite long, probably taking until about 2017. This reflects scope for a cyclical productivity rebound, greater use of under-employed labour, plus strong labour supply growth. UK labour supply is likely to continue to be lifted by high inflows of foreign workers, rising participation rates among the over 50s and tightening benefit standards. More than two thirds of the growth in employment over the last year is accounted for by people born outside the UK, and the potential supply of foreign workers is large given labour mobility within the EU, the UK's relatively high pay levels, and widespread availability of non-UK English speakers.

Figure 27. United Kingdom — Economic Forecasts, 2012-2014F

					2013				2014			
		2012	2013F	2014F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	0.1%	1.1%	2.1%	0.2%	1.4%	1.2%	1.8%	2.1%	1.9%	2.0%	2.3%
	SAAR				0.8	2.4	2.3	1.8	1.7	1.9	2.5	3.0
Domestic Demand	YoY	1.1	0.9	1.7	0.4	0.9	1.0	1.4	2.0	1.6	1.5	1.8
(Incl. Inventories)	SAAR				-1.4	3.2	2.2	1.6	0.9	1.7	1.9	2.5
Private Consumption	YoY	1.2	1.9	1.8	1.5	1.7	2.3	2.1	2.0	1.9	1.6	1.9
	SAAR				1.2	2.3	3.5	1.5	0.7	1.8	2.3	2.7
Government Consumption	YoY	2.8	1.1	-0.6	0.8	2.0	1.2	0.5	0.1	-0.5	-1.1	-1.2
	SAAR				0.4	1.0	0.5	0.0	-0.9	-1.4	-1.9	-0.5
Investment	YoY	0.5	-5.9	3.8	-8.3	-7.7	-6.5	-0.8	0.3	3.3	5.4	6.3
	SAAR				0.6	-5.5	-1.4	3.4	4.8	6.3	6.9	7.1
Exports	YoY	0.9	2.2	6.4	-0.8	2.8	1.7	5.0	7.0	5.3	6.3	6.9
	SAAR				-0.5	12.9	3.0	5.1	7.4	5.8	7.1	7.2
Imports	YoY	2.8	0.9	5.1	-0.9	0.8	0.8	2.9	6.2	4.1	4.8	5.1
	SAAR				-7.7	13.8	2.4	4.4	4.6	5.0	5.1	5.8
Unemployment Rate	%	7.9	8.0	8.0	7.8	7.8	8.1	8.1	8.2	8.2	8.1	8.0
CPI Inflation	YoY	2.8	2.6	2.0	2.8	2.7	2.6	2.2	1.9	2.0	2.0	2.1
Merch. Trade	£bn	-104.1	-105.0	-98.7								
	% of GDP	-6.7	-6.5	-5.9								
Current Account	£bn	-57.7	-53.4	-48.8								
	% of GDP	-3.7	-3.3	-2.9								
PSNB	£bn FY	-89.4	-103.1	-89.3								
	% of GDP	-5.7	-6.3	-5.2								
General Govt. Balance	% of GDP	-6.3	-6.9	-5.8								
Government Primary Balance		-2.7	-3.2	-2.1								
Public Debt	% of GDP	89.5	93.3	96.7								
Gross Nonoil Trading Profits	YoY	4.5	11.4	9.8								

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

Switzerland

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The conditions that prompted the SNB to adopt its exchange rate cap have now partly faded. EMU sovereign spreads have fallen sharply, CPI inflation is no longer negative and the economy is growing steadily. We are lifting our 2013 growth forecast to 1.7% from 1.5%. Nevertheless, we expect the SNB will continue to resist FX appreciation for some time to come. First, core inflation, which excludes food, drink, tobacco and energy, remains slightly down YoY (minus 0.2% YoY in June). Second, the economy has ample slack to allow growth without creating domestic inflation pressures. Third, the strong CHF and weakening EM growth pose serious headwinds, especially for Switzerland's top-end consumer goods industries.

Sweden

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Although lead indicators suggest the worst is behind us, economic recovery is likely to be weak in a historical perspective, especially given household deleveraging risks. GDP shrank by 0.1% Q/Q in 2Q, and the surprising gain in inventories suggests that underlying demand may be even weaker than headline GDP. Weak growth, low capacity utilisation, rising unemployment and very low inflation support additional monetary policy easing. However, given the Riksbank's focus on financial stability risks, the Bank is unlikely to ease monetary policy further.

Denmark

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The Danish economy appears to have very little momentum at present, and a near-term return to trend growth is not on the cards with house prices showing few signs of recovering, private spending being restrained by high private debts and sluggish euro area growth. Although the Danish economy likely will not contract in 2013, as it did in the past year, the overall rate of real GDP growth in Denmark probably will remain lacklustre for the next few years. The government has now largely exhausted its scope for additional counter-cyclical fiscal support. The key policy rate will be kept low for at least an extended period as the ECB.

Norway

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Norway's economy continues to be supported by strong activity in the petroleum sector and construction industry. However, momentum has peaked and lead indicators suggest that mainland GDP should settle at a slightly below-trend pace ahead. Combined with below-target inflation and no apparent near-term triggers for a pick-up, plus high lending margins, the Norges Bank lowered its conditional interest rate path in June, signalling a 50% probability of a Sep cut. However, with financial stability concerns weighing increasingly in interest rate decisions and with a weaker-than-expected NOK, we doubt Norges Bank will cut rates in the near term.

Figure 28. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2012-2014F

		Switzerland			Sweden			Denmark			Norway		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	1.0%	1.7%	1.5%	1.1%	1.0%	2.2%	-0.4%	0.1%	0.7%	3.3%	2.2%	2.6%
Final Domestic Demand	YoY	1.7	1.7	1.2	1.9	0.6	1.8	0.4	-0.1	0.7	2.8	2.5	2.9
Private Consumption	YoY	2.5	2.4	1.6	1.6	1.7	1.9	0.5	0.5	0.7	3.1	3.0	3.1
Government Consumption	YoY	0.5	1.0	1.4	1.1	1.0	0.7	0.7	-0.5	0.4	1.6	2.1	2.0
Investment (Ex Stocks)	YoY	-0.2	0.0	-0.1	3.9	-2.7	3.0	-0.1	-0.9	1.0	3.8	1.6	3.9
Exports	YoY	1.1	1.1	3.7	1.3	-2.3	2.8	0.2	-1.3	1.5	3.4	2.1	2.5
Imports	YoY	2.1	-0.1	3.4	0.5	-2.6	2.0	1.0	1.2	1.4	4.2	1.7	3.9
CPI (Average)	YoY	-0.7	-0.2	0.3	0.9	0.1	1.0	2.4	0.9	1.5	0.7	1.7	1.5
Unemployment Rate	%	2.6	1.8	1.7	8.0	8.3	8.2	7.5	7.5	7.4	3.2	3.6	3.6
Current Account	% of GDP	12.8	12.9	13.0	6.9	7.1	6.9	6.7	5.3	4.7	14.2	14.5	14.9
General Govt Balance	% of GDP	0.5	0.7	0.9	-0.6	-1.5	-1.5	-4.3	-2.0	-1.5	13.8	13.1	13.0
General Govt Debt	% of GDP	46.7	45.3	43.3	38.4	39.4	39.8	45.8	47.4	47.8	NA-	NA	NA

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

Canada

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Brighter prospects for advanced economies and very accommodative financial conditions suggest faster Canadian growth ahead. But near term prints probably will be irregular as a series of shocks in June and July threaten to initially dampen and then boost output. Shocks included flooding in Toronto and Southern Alberta, and a strike in Quebec. Stronger-than-expected tracking data suggest that the drag on 2Q GDP may be less than the 1.3% annualised cut the BoC projected. Likewise, the realignment of the global potash market and CMHC rationing of mortgage loan securitisation may reduce the bank's forecast 1.8% annualised lift to 3Q output.

Volatility notwithstanding, the medium-term outlook for Canada remains largely unchanged. Output probably will be subdued relative to past expansions, as global demand is expected to be modest over the medium-term. Moreover, the rotation of Canadian demand away from consumers and government, and towards businesses and external trade will weigh on the economy until the adjustment is complete. Further anticipated depreciation of the Canadian dollar and participation in the North American energy independence movement should provide some positive offsets.

Total and core CPI inflation remain below the Bank of Canada's 2% objective presently, but are still expected to return to target by mid-2015, with closure of the output gap. Upside risks to the inflation projection include (1) stronger private US demand amid reduced fiscal drag and continued housing market revival; and (2) reinvigoration of the Canadian housing market. Downside risks include (1) EA woes; (2) weaker-than-expected emerging market growth that dampens commodity prices and subsequently exports; and (3) domestic consumer retrenchment linked to debt and/or disorderly unwind of housing activity. As risks remain roughly balanced, we continue to anticipate fixed rates until 1Q 15 and retention of the tightening bias.

Figure 29. Canada — Economic Forecast, 2012-2014F

					2013F				2014F			
		2012	2013F	2014F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	1.7%	1.8%	2.5%	1.4%	1.5%	1.9%	2.3%	2.3%	2.5%	2.6%	2.7%
	SAAR				2.5	1.8	2.4	2.5	2.5	2.7	2.8	2.9
Final Domestic Demand	YoY	2.3	1.7	2.3	1.4	1.7	1.9	1.9	2.3	2.3	2.4	2.3
	SAAR				0.6	2.4	2.2	2.4	2.4	2.3	2.4	2.3
Private Consumption	YoY	1.9	1.9	2.2	1.7	2.1	1.9	1.8	2.2	2.0	2.2	2.3
	SAAR				0.8	2.6	2.0	2.0	2.2	2.0	2.4	2.4
Government Spending	YoY	1.0	1.2	1.0	1.3	1.2	1.3	1.0	0.9	1.0	1.0	1.0
	SAAR				1.3	0.7	1.0	1.0	1.0	1.0	1.0	1.0
Private Fixed Investment	YoY	5.2	1.9	4.5	0.6	1.3	2.6	3.2	4.6	4.7	4.6	4.2
	SAAR				-0.9	4.0	4.3	5.4	4.5	4.7	3.7	3.8
Exports	YoY	1.5	2.3	5.6	0.5	1.1	3.3	4.4	4.3	5.6	6.1	6.4
	SAAR				6.2	1.2	4.9	5.3	5.7	6.4	6.8	6.5
Imports	YoY	3.1	1.3	4.4	0.8	1.0	0.8	2.6	3.6	4.4	4.7	5.0
	SAAR				1.2	1.9	3.5	4.0	5.0	5.0	5.0	5.0
CPI	YoY	1.5	1.2	1.8	0.9	0.8	1.4	1.6	1.7	2.1	1.8	1.8
Core CPI	YoY	1.7	1.4	1.8	1.3	1.2	1.4	1.7	1.7	1.8	1.9	1.9
Unemployment Rate	%	7.3	7.1	6.7	7.1	7.1	7.2	7.0	6.7	6.8	6.8	6.5
Current Account Balance	C$bn	-62.2	-59.4	-66.4	-56.3	-60.4	-57.8	-62.2	-62.9	-70.3	-61.4	-71.0
	% of GDP	-3.4	-3.2	-3.4	-3.0	-3.2	-3.1	-3.3	-3.3	-3.6	-3.1	-3.6
Net Exports (Pct. Contrib.)		-0.6	0.3	0.2	1.4	-0.2	0.3	0.3	0.1	0.3	0.4	0.4
Inventories (Pct. Contrib.)		0.0	-0.2	-0.1	0.5	-0.5	-0.2	-0.3	0.0	0.0	0.0	0.1
Budget Balance (Fiscal Year)	% of GDP	-1.4	-1.0	-0.3								
Federal Budget Debt	% of GDP	33.2	33.1	32.4								
General Govt. Debt	% of GDP	83.9	83.8	83.1								

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

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Australia

As we expected, the RBA cut the policy rate by 25 bps to 2.5% at the August board meeting. Since the rate cut, we have seen some positive developments domestically; consumer confidence has improved and the housing market is responding to earlier interest rate stimulus. With the date for the federal election now set for September 7, the prospect of an end to the period of minority government should be a small positive for future readings of business confidence. That said, the economy is the number one issue with voters and the next government will need to get to work on a new economic reform agenda to improve productivity and long-term fiscal sustainability fairly quickly. For monetary policy, some improvement in global economic data and important commodity prices like iron ore has removed the need for any further policy accommodation. We continue to expect the August cut to be the last in the current easing cycle, although the release of the Q3 CPI data in late October should focus attention on the November RBA Board meeting as the next available opportunity for the RBA to ease policy further, should it be required.

New Zealand

In a surprise development RBNZ governor Wheeler announced that from 1 October banks will need to restrict new residential mortgage lending with LVR's over 80% to no higher than 10% of the value of their new housing lending flows. The earlier-than-expected implementation of macro prudential tools should give the RBNZ scope to leave interest rates unchanged over the remainder of this year despite signs that economic momentum was picking up. The Bank also would want to avoid raising rates too early given the upward pressure on the NZD it would create. Ultimately though, we think rates will need to rise and we continue to expect the first tightening in Q1 next year.

Figure 30. Australia and New Zealand — Economic Forecast, 2012-2014F

	Australia			New Zealand		
	2012	2013F	2014F	2012	2013F	2014F
Real GDP[a]	3.6%	2.5%	3.1%	2.2%	2.6%	2.8%
Real GDP (4Q versus 4Q)	6.7	5.4	5.6	1.6	3.5	2.2
Real Final Domestic Demand	4.7	1.3	2.7	2.4	3.9	3.2
Consumption	3.2	2.0	2.8	1.8	3.2	2.5
Govt. Current & Capital Spending[b]	3.1	0.8	2.1	0.5	1.0	0.9
Housing Investment	-3.8	2.8	5.3	13.4	28.5	8.9
Business Investment[c]	15.9	0.6	1.7	4.4	4.2	6.1
Exports of Goods & Services	6.0	8.1	8.3	2.1	1.8	1.0
Imports of Goods & Services	6.4	0.0	6.5	2.6	3.7	4.4
CPI	1.8	2.1	2.8	1.1	1.2	2.3
CPI (4Q versus 4Q)	2.2	1.9	2.8	0.9	2.0	2.2
Unemployment	5.3	5.9	5.8	6.9	6.1	5.1
Merch. Trade, BOP (Local Currency, bn)	-4.8	4.4	-6.2	1.1	1.5	-0.5
Current Account, (Local Currency, bn)	-55.0	-44.6	-62.9	-10.3	-11.9	-15.3
Percent of GDP	-3.7	-2.9	-3.9	-4.9	-5.5	-6.8
Budget Balance[d] (Local Currency, bn)	-44.7	-37.7	-30.7	-9.2	-6.3	-2.0
Percent of GDP	-3.0	-2.5	-1.9	-5.3	-3.1	-0.9
General Govt. Debt (% of GDP)[e]	0.3	0.3	0.3	38.8	38.1	41.3
Gross Operating Surplus	-4.5	0.5	5.0	NA	NA	NA

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

China

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The July data suggest that economic activity has stabilised for now. Year-to-date FAI growth remained steady at 20.1%, supported by robust infrastructure and property investment. Retail sales growth slid only marginally to 13.2% YoY. More strikingly, IP growth jumped from 8.9% YoY in June to 9.7% in July, benefiting from a low base last year, summer heat that increased electricity consumption, and disclosure of the government's bottom-line growth rate (around 7.5% this year) that helped to stabilise expectations. Official PMI and foreign trade also improved, reducing downside risks in the near term.

The shift toward a neutral monetary policy stance appears on track. M2 growth has decelerated from the 15-16% range in January-May to the 14-15% range in June-July. New RMB lending has been consistent with an implicit annual quota of 9tn, or slightly above 14% growth of credit outstanding. New financing outside the banking system fell significantly in the last two months. In particular, the share of RMB loans in total social financing rose to 86.5% in July, relative to 50% in 1H, as off-balance-sheet credit and bond financing has been squeezed in the wake of the liquidity crunch in the interbank market in June. We expect the PBOC to continue the shift toward a neutral policy stance to manage inflation expectations and reduce financial risks.

The growth downtrend may return in 4Q. Stable sequential growth momentum in 3Q may translate to impressive growth numbers on a YoY basis due to base effects, and we see some upside to our 3Q growth forecast of 7.4% YoY. However, the reduction of downside risks in the near term and stable employment conditions have dimmed the prospects for policy stimulus, although the government may continue to introduce measures — mostly structural in nature — to boost confidence. Investment has so far been bolstered by loose funding conditions early this year, but tighter credit conditions since May and the ongoing government debt audit may constrain funding for infrastructure investment, weighing on growth late this year and early next year. We expect growth to decelerate again in 4Q, and maintain our 2013 growth forecast at 7.4%.

Figure 31. China — Economic Forecasts, 2012-2014F

					2013F				2014F			
		2012	2013F	2014F	1Q	2QF	3QF	4QF	1QF	2QF	3QF	4QF
Real GDP	YoY	7.8%	7.4%	7.1%	7.7%	7.5%	7.4%	7.1%	6.8%	7.1%	7.1%	7.3%
Real Final Domestic Demand	YoY	8.3	7.2	7.0								
Consumption	YoY	8.3	7.5	7.5								
Fixed Capital Formation	YoY	8.3	6.8	6.4								
Industrial Production	YoY	10.0	9.1	8.7	9.5	9.1	9.1	8.5	9.0	8.2	8.5	9.1
Exports	YoY	7.9	7.2	3.7	18.4	3.8	4.0	5.0	-3.0	5.0	7.0	5.0
Imports	YoY	4.3	5.4	2.6	8.6	5.0	5.0	3.0	-4.0	2.0	5.0	7.0
Merchandise Trade Balance	$bn	231	282	313	42	66	78	96	46	83	93	91
FX Reserves	$bn	3,312	3,698	3,951	3,443	3,497	3,574	3,698	3,723	3,792	3,869	3,951
Current Account	% of GDP	2.3	2.2	2.0								
Fiscal Balance	% of GDP	-2.0	-2.0	-2.0								
General Govt. Debt*	% of GDP	45.0	45.1	45.2								
Urban Unemployment Rate	%	4.1	4.1	4.2	4.1	4.1	4.1	4.1	4.2	4.2	4.2	4.2
CPI	YoY	2.6	2.7	3.0	2.4	2.4	2.7	3.1	2.8	2.9	2.7	3.4
Exchange Rate (end period)	CNY/$	6.23	6.16	6.09	6.21	6.14	6.15	6.16	6.17	6.16	6.13	6.09
1-Yr Deposit Rate (end period)	%	3.00	3.00	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25

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 forecasts

India

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The Indian economy found itself between a rock and a hard place this summer after the Rupee went for a tailspin on fears of Fed tapering. Despite GDP growth at a 10-year low of 5%YoY in FY13 and core inflation slightly above 2% YoY, the RBI shocked markets by raising overnight rates by 300bps to contain Rupee volatility (see RBI's Measures). Later, in its July policy statement, the RBI stated that if it were not for the spike in rupee volatility, there would have been "*a reasonable case for continuing on the easing stance*". The RBI looks in a tight spot, and while hopes for the incoming Governor are high, there is no easy solution in sight. India has a large current account deficit ($88bn or 4.8% of GDP in FY13) and relies heavily on portfolio flows to finance it (avg. ~ $22bn or 28% of capital flows in the last two years). Ever since the Fed first hinted at a taper on May 22, debt markets have seen portfolio outflows of $9.8bn and equity markets of $1.6bn, thus putting considerable pressure on the Rupee. The INR briefly touched 64/$ on August 20 in the bout of volatility and has been trading at over 6% discount to its fair REER value.

Macro Implications/Outlook — we believe that as long as monetary policy is geared towards managing external risks while putting domestic growth inflation dynamics on hold, economic recovery is likely to be tentative at best. Thus we have revised down our GDP growth estimate to 5.4% and 6.2% for FY14 and FY15 respectively from 5.7% and 6.4% respectively last month (see GDP Revision).

On monetary policy, we expect the incoming governor to maintain continuity and consistency of the stance taken by the incumbent governor heading into the taper i.e. September. But once normalcy returns to exchange rates, we believe there will be space for liquidity to be restored to pre-July conditions and policy rates (repo) to come down by another 50bps. We now expect rate cuts to get pushed back to 4Q FY14 as liquidity normalisation may still take a while.

Lastly, strains have also emerged on the fiscal front as 1) International crude prices have gone up despite China slowdown concerns 2) Rupee depreciation has pushed up under recoveries further 3) Sluggish growth has hurt revenue collections. But since the first quarter is seasonally weak in terms of revenues and also because there is scope to cut planned expenditure (budgeted to grow by 34% YoY in FY14), we retain our fiscal deficit estimate at 4.8% for now while acknowledging the upside risks.

Figure 32. India — Economic Forecasts, FY2012/13-2014/15F

		FY 12/13F	FY 13/14F	FY 14/15F
Real GDP	YoY	5.0%	5.4%	6.2%
Final Domestic Demand	YoY	3.2	4.9	6.1
Private Consumption	YoY	4.0	5.3	6.5
Fixed Investment	YoY	1.7	3.5	5.5
Exports	YoY	3.0	10.0	11.0
Imports	YoY	6.8	12.0	9.5
Wholesale Price Index*	YoY	7.3	5.5	5.0
Consumer Price Index	YoY	10.2	7.5	7.5
Current Account	US$ bn	-88	-81	-74
	% of GDP	-4.8	-4.3	-3.2
Consolidated Fiscal Balance	% of GDP	-7.0	-6.7	-6.4
Centre Fiscal Balance	% of GDP	-4.9	-4.8	-4.6
US Dollar Exchange Rate	Average	55.0	63.9	61.5

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

Korea

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We expect the economy to remain on a recovery trend of around 1% QoQ s.a. in 2H13 along with a gradual rebound in exports and domestic demand. July exports hinted at the rebound by growing faster than expected at 2.6%YoY, due to the upswing in ICT products and rebounds in shipbuilding and petrochemicals. It is worth noting that exports to China (14.5% YoY), US (9.8%), and EU (6.6%) showed meaningful improvements. Recovery of the US economy probably will bolster export recovery despite weakening exports to China. Wage gains and steady job growth should continue to support recovery of consumption. Hesitation in business investment in 1H — mainly due to increased uncertainties from the US sequestration and North Korea's nuclear threats — is likely to fade soon on better economic conditions and the 2014 outlook. Nevertheless, the slowdown in private housing may weaken construction investment. We expect CPI inflation to rise further to 2.2%YoY in 4Q12 as agricultural goods and service prices increase. Facing rising inflation pressure amid steady economic recovery, we reiterate our view that the BoK will keep the policy rate at 2.50% this year.

Indonesia

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We revise down our 2014 growth forecasts by 0.4pps to 5.6%, a slowdown from an expected 5.8% gain in 2013. The weak outlook for export commodity prices may exert continued pressure on the trade deficit and balance of payments. The nature of the trade deficit has changed. Last year import growth was led by capital goods. Now as exports shrink further, imports of capital goods are down but raw material import growth has been stubbornly stable. We believe that rupiah adjustment will not lead to significant import substitution effects, and hence imports can only be curbed by reducing economic growth. Heavy industries such as building construction and vehicle manufacturing are heavy users of steel, which makes up about 15% of total imports. The slowdown is already underway as credit tightens, but a perception gap is emerging between BI and the markets which could exacerbate currency pressures. BI is tightening policy through a mix of instruments e.g. macroprudential measures and could be seen as behind the curve based purely on their rate tightening (we expect only +25bps policy rate hike by YE13). Inflation has increased to 8.6% in July and may see further upside in the near term; but core inflation remains anchored and we still believe the headline rate will head back towards 4.3% by YE14. With BoP pressure in the spotlight, foreign flows into the bond market may remain stagnant and upside risk on the 10-yr yield still lingers.

Figure 33. Korea and Indonesia — Economic Forecasts, 2012-2014F

		Korea			Indonesia		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	2.0%	2.9%	3.7%	6.2%	5.8%	5.6%
Final Domestic Demand	YoY	1.1	2.3	3.3	6.2	4.7	4.9
Private Consumption	YoY	1.7	1.7	3.1	5.3	5.1	4.7
Fixed Investment	YoY	-1.7	2.8	4.0	9.8	4.3	4.9
Exports	YoY	4.2	5.4	6.1	2.0	4.2	6.0
Imports	YoY	2.5	4.5	5.9	6.6	0.6	4.1
Consumer Price Index	YoY	2.2	1.5	2.6	4.3	7.1	5.5
Unemployment Rate	%	3.2	3.2	3.2	6.1	5.9	5.9
Current Account	US$ bn	43.1	50.0	32.8	-24.1	-29.8	-24.2
	% of GDP	3.8	4.3	2.5	-2.7	-3.2	-2.3
Fiscal Balance	% of GDP	1.5	0.9	2.3	-1.8	-2.1	-1.8
US Dollar Exchange Rate	Average	1127	1130	1086	9361	10135	10462

Sources: Haver Analytics and Citi Research forecasts

Hong Kong

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We maintain our full year GDP forecast at 3% YoY, despite better than expected 2Q GDP growth of 3.3% YoY, on concerns of China slowdown in upcoming quarters. In particular, the 2Q rebound in investment reflects both construction activities and equipment acquisition. The drag from net trade shrank in 2Q, but we only expect a gradual trade recovery ahead, as consumers from advanced economies remain selective and appear to be reserving purchases for new product launches. The July CPI spike was mostly a one-off statistical distortion. Indeed, inflation generally has been weaker than expected and official CPI forecasts for 2013 were recently lowered by 0.3ppt to 4% YoY. EFN yields appear to be moving sharply higher along with their US counterparts, as QE tapering draws close and amidst market worries about earlier hike in interest rates.

Singapore

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2Q GDP was revised slightly up to 3.8% YoY, 15.5%QoQ SAAR along with the official growth forecast to 2.5-3.5% from 2-3%. Going forward, we expect a 3Q pullback — hinted at by the sequential decline in the July NODX and other guides, with a pickup towards 4Q, leaving the full year outturn well within the upwardly revised official GDP forecast of 2.5-3.5%. The eventual cyclical pick-up will likely accelerate the pass through of pipeline cost pressures to consumer prices and likely gradually raise core inflation above 2% by year-end. Thus despite the recent lowering of the official headline inflation forecast (which has become less relevant given MAS's strategy of generally under-promising and over-delivering on inflation forecasts), the hurdle for MAS easing in October likely remains high.

Taiwan

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The final 2Q GDP release was revised up slightly to 2.49% YoY, but DGBAS nudged down the 1Q data and cut its forecast for 2013 growth to 2.31% YoY (-0.09ppt from previously). We are cutting our 2013 forecast to 2.6% YoY from 2.9% last month, mainly on China slowdown worries. The small FX depreciation factored in our 0-3M forecast of the TWD at 30.2 also reflects China concerns. We still expect the CBC to keep rates on hold this year amid concerns of housing strength and capital inflows. We adjusted upward our 10Y government bond yield forecast to 1.75% by year end, driven by UST movements. The signing of the FTA with New Zealand is a significant breakthrough in international space for the politically isolated island, although economic benefits will only accumulate in years ahead.

Figure 34. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2012-2014F

		Hong Kong			Singapore			Taiwan		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	1.5%	3.0%	3.4%	1.3%	3.2%	4.4%	1.3%	2.6%	3.8%
Final Domestic Demand	YoY	4.8	3.4	2.1	2.9	2.4	3.9	0.1	1.9	2.6
Private Consumption	YoY	3.2	4.1	2.1	2.2	2.1	2.8	1.5	1.7	2.7
Fixed Investment	YoY	9.4	2.0	2.4	6.6	-0.5	4.9	-4.4	3.9	3.6
Exports	YoY	1.8	6.8	4.4	0.3	1.6	3.8	0.1	5.2	4.8
Imports	YoY	2.8	7.1	3.9	3.2	1.7	3.0	-1.9	4.9	3.8
CPI	YoY	4.1	4.3	3.6	4.6	2.5	2.8	1.9	1.5	1.9
Unemployment Rate	%	3.3	3.4	3.2	1.9	1.9	1.8	4.2	4.1	4.0
Current Account	US$ bn	2.9	6.3	11.2	51.5	40.3	42.3	49.9	44.2	44.3
	% of GDP	1.1	2.2	3.7	18.6	14.0	13.5	10.5	9.1	8.5
Fiscal Balance	% of GDP	3.3	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	7.76	1.25	1.26	1.25	29.57	30.01	29.71

Sources: Haver Analytics and Citi Research forecasts

Russia

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With thanks to
Adrian Thomas

Economic activity continues to decelerate: GDP growth in Q2 fell to 1.2% YoY, from 1.6% in Q1, and it now seems GDP growth for the year will struggle to exceed 2%. The government's response to this slowdown is likely to rely increasingly on looser macro policies. Fiscal expansion will focus on railways, roads, child allowances, pensions and defence spending and, since Russia's public debt burden is extremely low, there are likely to be few immediate obstacles to a gradual increase in public spending. And monetary policy too is likely to loosen gradually, at least in the sense that the CBR will remain a large creditor to the financial sector. One important question is whether or not the CBR feels comfortable enough about the inflation outlook to cut rates. On balance, we think a rate cut in September is increasingly likely, although the CBR might want to see more decisive evidence that inflation is falling before acting: CPI inflation is currently at 6.5% YoY, far above the central bank's 4.5% proposal for an inflation target. Inflation should fall in H2, though, facilitating looser monetary policy, particularly since the weakness of domestic spending is supporting the trade surplus and helping to stabilise the exchange rate. Overall, we see few reasons for optimism about the real economy: supply-side reforms are few, and the demand for credit is weakening as confidence declines.

Turkey

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On the back of rising concerns over the growth outlook and the deterioration in inflation, we believe that policy trade-offs have become more acute ahead of a relatively heavy political calendar. In our view, the CBT's recent decision to raise its overnight lending rate (by 75bp) and in August (by 50bp to 7.75%) highlight policymakers' dilemma as the Fed is set to slow the pace of easing: *focus on growth or inflation?* Due to more stretched corporate/household balance sheets than in the past and the absence of meaningful progress on supply-side reforms, we argue that the government's forecasts of growth of 4% this year and 5% in 2014 for Turkey cannot be taken for granted. Concurrently, Turkey's so-called "US$ 200bn plus problem" consisting of a current account gap of some US$55bn-US$60bn and short-term debt of about US$160bn (on a remaining maturity basis) leaves little room for policy slippage. Where do we go from here? In our opinion, the excessive discretion in the conduct of monetary policy will likely continue to undermine investor appetite in Turkish assets. We believe that the CBT's unorthodox approach and the upcoming election-heavy calendar cloud the outlook for a more rule-based policy environment. This, coupled with rising fears for higher US bond yields, paints a challenging picture for Turkish assets during the rest of the year, in our view.

Figure 35. Russia and Turkey — Economic Forecast, 2012-14F

		Russia			Turkey		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	3.4%	2.1%	2.8%	2.2%	3.5%	4.0%
Final Domestic Demand	YoY	5.2	3.4	3.9	-0.5	3.8	3.3
Private Consumption	YoY	6.7	3.5	3.6	-0.7	3.8	3.8
Fixed Investment	YoY	6.0	4.6	6.5	-2.5	2.5	0.9
Exports	YoY	1.4	0.5	1.7	17.2	1.5	4.3
Imports	YoY	9.5	4.5	4.5	0.0	4.1	1.6
CPI	YoY	5.1	6.5	5.1	8.9	7.3	7.3
Unemployment Rate	%	5.5	6.5	7.0	9.2	9.5	9.5
Current Account	US$ bn	78.0	60.2	20.6	-45.4	-56.6	-59.2
	% of GDP	3.9	2.8	0.9	-5.8	-6.9	-6.8
Fiscal Balance	% of GDP	-0.7	-2.0	-4.2	-2.0	-2.2	-2.7
US Dollar Exchange Rate	Average	31.1	32.8	34.4	1.80	1.92	2.01

Sources: Haver Analytics and Citi Research forecasts

Hungary

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The slightly weaker than expected (0.5% YoY) 2Q13 GDP flash estimate did not change our growth outlook. While domestic demand remains weak, the improved Eurozone growth outlook suggests a steady recovery in 2H13 for Hungary, which has the most open economy in the CEE. We have lowered our CPI forecast further following the soft July CPI reading and the government's decision to implement another 10% cut in retail gas and electricity prices in October. We now project CPI inflation to bottom out around 1.3% YoY in 4Q13 and to only come near the 3% official target in 2H14. Historically low inflation and weak growth may reaffirm the MPC's rate-cutting bias, but rising global yields and Hungary's risk assessment limit room for further monetary easing. We expect the MPC will slow the magnitude of rate cuts to 10bp each month from August and cut the base rate to 3.50% by year-end. However, rate cuts may stop sooner if external conditions turn less supportive in the coming months. The government's new FX mortgage aid plans and the 2014 budget planning may be the key domestic risk factors to watch in the near term.

Poland

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Most data published in August points towards a noticeable, yet gradual acceleration in economic activity. After a very weak beginning of the year, economic growth in 2Q picked up to 0.8%YoY and, although details have not been released yet, the improvement was most likely due to stronger private consumption and the continued positive contribution from net exports. We expect this process to continue in coming quarters and our 2014 GDP forecast of 2.8% is above the market consensus (2.4%). In coming weeks, the government is to announce details regarding planned changes in the open pension funds but, whatever option is eventually chosen, this should lead to a reduction in public debt and the fiscal deficit next year. The government will also publish more details regarding this year's budget revision and next year's budget draft. A scenario of stronger economic growth, higher inflation and easier fiscal policy should make it easier for the Polish Monetary Policy Council to maintain its relatively hawkish rhetoric. We still believe the MPC will leave rates on hold at 2.50% in the coming months and the tightening cycle will not begin before July 2014 (and possibly later). All in all, we expect stronger GDP and impressive current account adjustment to be supportive for the zloty in the coming months.

Figure 36. Hungary and Poland — Economic Forecasts, 2012-2014F

		Hungary			Poland		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.7%	0.6%	1.4%	1.9%	1.3%	2.8%
Final Domestic Demand	YoY	-2.1	-0.9	0.2	0.3	0.0	2.2
Private Consumption	YoY	-1.4	0.3	0.8	0.8	1.0	2.2
Fixed Investment	YoY	-3.8	-3.6	-1.0	-0.8	-3.2	2.6
Exports	YoY	2.0	2.2	3.8	2.8	3.1	4.0
Imports	YoY	0.1	1.4	2.8	-1.8	0.3	2.9
CPI	YoY	5.7	1.9	2.1	3.7	1.1	2.2
Unemployment Rate	%	10.9	10.6	10.2	12.2	14.2	13.4
Current Account	US$ bn	2.1	2.7	3.6	-17.3	-10.9	-17.9
	% of GDP	1.6	2.2	2.6	-3.5	-2.2	-3.4
Fiscal Balance	% of GDP	-1.9	-2.8	-2.9	-3.9	-4.3	-3.9
Euro Exchange Rate	Average	289	302	298	4.18	4.22	4.19

Sources: Haver Analytics and Citi Research forecasts

Czech Republic

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We decided to cut our 2013 GDP forecast to -1% from -0.8% previously due to a downward revision to the GDP data for 1Q13, a decline in capacity utilisation in 3Q13 and weaker-than-we-expected GDP in 2Q13. On the other hand, we raised our 2014 forecast to 1.6% from 1.3% due to improved prospects for foreign (ie euro area) demand. Despite reducing the 2013 forecast, we think quarterly growth will remain positive, although less than 2Q13 — which we expect was lifted by stockbuilding. Our forecast for growth in 2014 remains subdued (averaging 0.4% QoQ), and we assume that German exports will lose market share somewhat — which is likely to be negative for Czech suppliers. Czech domestic demand is likely to recover gradually, as we expect the labour market to improve following the recent drop in hours worked. Nevertheless, fixed investment activity is likely to remain subdued. Fiscal policy is likely to remain neutral for economic growth as the ongoing political crisis (early elections are expected in late October) stalls debate. Though CPI inflation is likely to accelerate in August, we expect it to remain slightly under the CNB's forecast in 4Q13 and 2014. The better-than-expected GDP data for 2Q13 has reduced the likelihood of CNB's FX intervention, but it is not totally off the table.

Romania

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The NBR surprised markets at the August Board meeting, cutting its policy rate by 50bp to 4.5%. In line with the consensus, we had expected a 25bp cut. Nonetheless, the NBR's expectations of a faster disinflation trajectory and its increased focus on economic recovery seem to have led the Bank to ease more aggressively than expected, in our view. We believe that a fresh precautionary IMF-EU supported program for 24-months worth €4bn should help the NBR to preserve its easing bias, by reducing policy uncertainty and bolstering investor sentiment. We believe that Governor Isarescu's comments at the press conference and the July inflation print also suggest that there is room for further easing. Against this backdrop, we look for a 25bp rate cut at the September Board meeting, which would bring the policy rate to 4.25%. In our view, whether the NBR will opt for further easing at the last rate meeting of the year on November 5 will depend on the evolution of the leu.

Figure 37. Czech Republic and Romania — Economic Forecasts, 2012-2014F

		Czech Republic			Romania		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	-1.2%	-1.0%	1.6%	0.4%	1.6%	2.8%
Final Domestic Demand	YoY	-2.4	-0.5	2.2	1.9	0.2	2.5
Private Consumption	YoY	-3.3	0.2	1.3	1.0	0.5	2.4
Fixed Investment	YoY	-2.7	-2.8	3.8	5.2	-1.0	3.5
Exports	YoY	4.0	1.1	6.0	-3.1	4.2	4.0
Imports	YoY	2.3	2.0	7.0	-0.8	1.2	3.0
CPI	YoY	3.3	1.6	1.3	3.3	4.5	2.8
Unemployment Rate	%	7.0	7.1	6.4	5.1	5.2	5.5
Current Account	US$ bn	-4.7	-2.4	-1.8	-6.6	-5.6	-9.0
	% of GDP	-2.4	-1.2	-0.9	-3.9	-3.0	-4.5
Fiscal Balance	% of GDP	-4.4	-2.8	-2.9	-2.2	-2.2	-2.5
EURCZK, USDRON	Average	25.1	26.0	25.6	3.5	3.4	3.3

Sources: Haver Analytics and Citi Research forecasts

Brazil

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Despite raising our 2Q13 GDP growth forecast to 0.9% QoQ, the weaker outlook for 2H13 and next year led us to downgrade our 2013 and 2014 growth estimates to 2.1% and to 2.0% (from 2.2% and 2.5% respectively last month). We also reduced our year end 2013 and 2014 inflation forecasts to 5.9% and to 5.8% (from 6.2% and 5.9%), both above the mid-point target but inside the band (2.5%-6.5%). We continue to see the central bank hiking the Selic rate to 9.25% and keeping at this level throughout next year. The government continues to indicate that fiscal policy will likely remain loose, thereby supporting our view that the primary surplus will be below the 2.3% GDP projection in the Budget Review. The poor trade balance result in July led us to update our estimates, suggesting the current account deficit will likely be higher than 3% of GDP this year. Finally, after the remarkable drop in the president's popularity in July, polls suggest some improvement in August although it is still much lower than the pre-demonstrations level.

Mexico

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Recent figures suggest that economic activity slowed further in 2Q13. Economic activity grew 1.7% YoY in May, and industrial output dropped 2.4% YoY in June. We revised down our 2Q13 real GDP growth forecast to 2.2% YoY from 3.0%. For 2013 we also downgraded it to 2% from 2.7%. Inflation is running at 3.5% (July) and core inflation at a historical low of 2.5%. We see inflation at 3.5% by year-end too. Although growth is slowing and inflation is in check, we keep our call for Banxico to remain on hold during 2013, as policymakers wait for more clarity on external conditions (prospects of Fed tapering) as well as domestic topics. Regarding the latter, President Peña Nieto unveiled the Energy Reform proposal. It involves constitutional changes, focusing on promoting energy operations via profit-sharing contracts and restructuring the electricity sector. We are optimistic regarding reform prospects in Mexico´s energy sector.

Figure 38. Brazil and Mexico — Economic Forecasts, 2012-2014F

		Brazil			Mexico		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	0.9%	2.1%	2.0%	3.9%	2.0%	4.2%
Final Domestic Demand	YoY	1.7	3.3	2.6	3.7	2.3	4.1
Private Consumption	YoY	3.1	2.3	2.5	3.3	2.5	4.2
Fixed Investment	YoY	-4.0	7.2	3.5	5.9	2.7	5.6
Exports	YoY	0.5	-2.1	5.7	4.6	3.4	8.0
Imports	YoY	0.2	8.8	8.1	4.1	3.7	5.7
CPI	YoY	5.4	6.2	5.9	4.1	3.8	3.4
Unemployment Rate	%	5.5	5.6	5.8	5.0	5.0	4.8
Current Account	US$ bn	-54.2	-78.5	-71.4	-19.3	-19.4	-61.6
	% of GDP	-2.4	-3.5	-3.1	-1.6	-1.5	-4.2
Fiscal Balance	% of GDP	-2.5	-3.6	-3.6	-2.6	-2.1	-2.0
US Dollar Exchange Rate	Average	1.95	2.22	2.36	13.16	12.67	12.40

Sources: Haver Analytics and Citi Research forecasts

Argentina

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In the August 11 compulsory primaries, the incumbent Frente para la Victoria (FpV) gathered much fewer votes than we were expecting: only 26% of the votes at the national level and close to 30% when its allies are included. The fact that most of the parties had already internally decided their candidates for the October 27 elections caused these primaries to resemble a super-scale poll. Despite the electoral setback, we do not expect the authorities to change the current macroeconomic policy framework. Although we acknowledge that the current drain in international reserves and BCRA's inability to purchase foreign currency are unsustainable, we believe that the government will try to reverse them through tighter FX controls, and not via ARS depreciation. Also, we do not expect measures on this front until after October 27. We thus continue to expect the USDARS to stand at 6 and 7.5 by the end of 2013 and 2014, respectively. Regarding activity growth, we expect it to decelerate in 2H13 and, particularly, in 2014, and non-official growth to stand at 3% and 0.5% in 2013 and 2014, respectively.

Venezuela

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Economic activity and inflation continue to deteriorate, even though oil prices remain at relatively favourable levels. In our view, attention should be focused on the evolution of liquid international reserves and special funds' USD cash balances as a measure of the government's solvency. This will be particularly important in the coming months given that both PDVSA and the sovereign have to make external debt service payments. We estimate these payments to be around USD5.48 billion — due mostly in September and November. On the FX front, while we expect SICAD auctions to continue operating at roughly USD400 million per month for the rest of the year, we see little room for the government to increase USD supply without issuing additional USD-denominated debt. Nonetheless, this will ultimately depend on how the external conditions for issuance evolve. Last but not least, we have witnessed an increase in the confrontation between the government and the opposition. We consider it unlikely that this situation will improve in the coming months as we get closer to the mayoral elections.

Figure 39. Argentina and Venezuela — Economic Forecasts, 2012-2014F

		Argentina			Venezuela		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	1.9%	4.4%	3.0%	5.6%	-0.5%	1.5%
Final Domestic Demand	YoY	2.5	5.0	2.8	12.3	-0.9	0.2
Private Consumption	YoY	4.4	5.8	3.0	7.0	-0.3	0.0
Fixed Investment	YoY	-4.9	2.0	1.9	23.3	0.5	0.6
Exports	YoY	-6.6	-0.8	-2.0	1.6	0.3	4.9
Imports	YoY	-5.2	4.9	-2.2	24.4	-1.3	-1.0
CPI	YoY	10.0	10.4	12.6	21.1	34.7	32.5
Unemployment Rate	%	7.2	7.7	7.8	5.9	6.4	6.8
Current Account	US$ bn	0.5	0.1	1.0	11.0	17.9	23.1
	% of GDP	0.1	0.0	0.2	3.1	5.3	7.2
Fiscal Balance	% of GDP	-2.6	-2.7	-3.6	-5.0	-4.0	-4.0
US Dollar Exchange Rate	Average	4.54	5.46	6.74	4.29	6.13	9.50

Sources: Haver Analytics and Citi Research forecasts w

Saudi Arabia

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Bloomberg data showed a rise in oil production for the fourth month in a row, to 9.47mbpd in June, up from a low of 9.0mbpd in February. In our view, much of the added production will be going towards rising domestic demand as temperatures continue to increase in these summer months, although the magnitude of the rise over the past four months now is indicative of a rise in exports, in our view. We expect production rises to moderate in coming months, in line with recent comments made by the Kingdom's minister of oil, Ali Al Naimi, who asserted that in view of rising global production, not least in North America, Saudi Arabia would be 'lucky to go past' current production levels by 2020 (Al Bawaba, May 13). Mr Al Naimi also clarified that Saudi would not be seeking to raise production capacity beyond 12.5mbpd after recent comments by HH Prince Turki al Faisal suggested plans were afoot to increase this to 15mbpd. Price stability remains the key policy goal of the Saudi oil ministry, in our view, and production is likely to react to price swings going forward. At current levels of production, however, we calculate that Saudi Arabia's fiscal break-even oil price has risen markedly, from US$79 per barrel last year to an expected US$93 per barrel in 2013. This is mostly down to a drop in production, though we are also expecting a rise in government expenditures of roughly 4% of GDP as well.

United Arab Emirates

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Dubai's economic recovery continues in full swing, grounded in the Emirate's fundamental strengths in the tourism, travel and logistics sectors, as well as in its success in creating a commercial hub for the region. In our view, there is no doubting the strength of the recovery in Dubai, but we are equally wary of signs of exuberance in asset prices, and the potential for bubbles to form. The yield on Dubai's external bonds has almost halved in the past 12 months, while the local Dubai Financial Market index has gained over 40% in value since the start of the year. Property prices have also risen sharply, with Cluttons data showing a rise of 16% in average villa prices in the Emirate in the first four months of the year (a massive 44% rise on a YoY basis).

Figure 40. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2012-2014F

		Saudi Arabia			United Arab Emirates		
		2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	6.8%	5.1%	7.4%	2.4%	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	-12.7	2.1	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	0.7	0.8	1.0
Current Account	US$ bn	176.2	96.0	70.8	0.7	8.1	16.9
	% of GDP	24.2	13.6	9.3	0.2	2.1	4.0
Fiscal Balance	% of GDP	13.7	1.9	-3.5	NA	NA	NA
US Dollar Exchange Rate	Average	3.75	3.75	3.75	3.67	3.67	3.67

Sources: Haver Analytics and Citi Research forecasts

Nigeria

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Since mid-2012, the Central Bank of Nigeria (CBN) has been able to maintain a stable naira, based among other things on its tight monetary policy and having oil prices over US$100/barrel. Moreover, the tight monetary policy stance has been justified by high inflation and levels of government spending. But the policy will likely become more complicated in 2H 2013 and into 1H 2014. This reflects both the impending departure of the current CBN governor in early June 2014 and our view that inflation will become firmly fixed in single digits — making a strong case for a potential cut in the Monetary Policy Rate (MPR). But, while a cut is possible, if it happens it is likely to be only modest. This reflects the fact that the CBN does not only consider inflationary trends when setting the MPR, but also considers wider factors — including its commitment to broad naira stability. While other factors could also be naira supportive, the task of building savings in the Sovereign Wealth Fund or making more payments into the Excess Crude Account (which would allow an even faster reserve buildup) is proving problematic. Therefore, with only limited progress with structural reform, reasonable growth and modest fiscal consolidation, the focus will remain on monetary policy.

South Africa

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Gina Schoeman
(On Leave)

The mix of a weaker rand, poor growth data and persistent inflation pressures in 1H 2013 highlight that this will be a difficult year for the South African economy. In our view, there is unlikely to be a strong rebound in growth before the 2014 elections. Of these trends, the most pronounced has been the long-anticipated rand crash, with the currency weakening to under the ZAR10:USD1 level since early May. This reflects both general concerns about the EM outlook but also, more crucially in the South Africa context, domestic issues such as political uncertainty and labour unrest, against the background of poor economic data, not only growth and inflation, but also the wide current account and budget deficits. While concerns about the global outlook and weak GDP growth mean the SARB would like to cut interest rates, inflationary pressures and rand volatility will continue to ensure it acts cautiously. The focus on SARB and its policy options largely reflects that fiscal policy is constrained by both recent ratings downgrades and pressing political needs. Lower growth projections have once again forced a deferral in the path of fiscal consolidation over coming years, which requires more financing. With national government debt already pushing above 40% of GDP, investors and rating agencies are likely to remain wary of South Africa's fiscal sustainability, leaving the National Treasury little scope other than the reprioritisation of policies.

Figure 41. Egypt, Nigeria and South Africa — Economic Forecast, 2012-2014F

		Egypt			Nigeria			South Africa		
		2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Real GDP	YoY	2.2%	1.1%	2.3%	7.4%	6.5%	6.9%	2.5%	2.3%	2.9%
Final Domestic Demand	YoY	4.7	-1.0	1.7	NA	NA	NA	4.0	2.0	3.7
Private Consumption	YoY	5.9	-3.7	2.5	NA	NA	NA	3.5	1.5	3.4
Fixed Investment	YoY	0.7	4.9	4.7	NA	NA	NA	5.7	2.7	4.9
Exports	YoY	-2.3	2.9	6.1	NA	NA	NA	0.1	0.9	5.3
Imports	YoY	10.8	-10.5	3.6	NA	NA	NA	6.3	1.0	6.6
CPI	YoY	7.1	9.8	10.6	12.2	8.6	10.4	5.7	5.6	5.8
Unemployment Rate	%	12.7	14.0	15.0	NA	NA	NA	25.1	25.5	26.2
Current Account	US$ bn	-7.6	-5.7	-6.1	11.3	7.4	1.3	-23.6	-20.0	-19.9
	% of GDP	-3.0	-2.3	-2.5	4.0	2.3	0.4	-6.1	-5.9	-5.7
Fiscal Balance	% of GDP	-10.9	-12.8	-11.9	-2.8	-2.6	-2.8	-4.4	-4.9	-4.8
US Dollar Exchange Rate	Average	6.07	7.01	7.81	158.8	159.15	163.54	8.21	9.82	10.26

Sources: Haver Analytics and Citi Research forecasts

Figure 42. Selected Emerging Market Countries — Economic Forecast Overview, 2012-2014F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F	2012	2013F	2014F
Asia	6.2%	6.2%	6.3%	3.9%	3.5%	3.7%	1.8%	1.6%	1.5%	-2.3%	-2.3%	-2.2%
China	7.8	7.4	7.1	2.6	2.7	3.0	2.3	2.2	2.0	-2.0	-2.0	-2.0
Hong Kong	1.5	3.0	3.4	4.1	4.3	3.6	1.1	2.2	3.7	3.3	1.8	1.0
India*	5.0	5.4	6.2	7.3	5.5	5.0	-4.8	-4.3	-3.2	-7.0	-6.7	-6.4
Indonesia	6.2	5.8	5.6	4.3	7.1	5.5	-2.8	-3.2	-2.3	-1.8	-2.1	-1.8
Korea	2.0	2.9	3.7	2.2	1.5	2.6	3.8	4.3	2.5	1.5	0.9	2.3
Malaysia	5.6	5.2	5.8	1.6	2.0	2.6	6.1	2.3	3.9	-4.5	-4.0	-3.5
Mongolia	12.4	13.8	11.0	14.3	9.9	10.0	-31.2	-24.5	-13.6	-8.3	-7.8	-5.8
Philippines	6.8	7.0	6.8	3.2	2.8	3.2	2.8	2.5	2.1	-2.3	-2.3	-2.0
Singapore	1.3	3.2	4.4	4.6	2.5	2.8	18.6	14.0	13.5	1.1	0.7	0.5
Sri Lanka	6.4	6.4	6.8	7.5	8.1	7.0	-6.6	-5.4	-4.0	-6.4	-6.2	-5.7
Taiwan	1.3	2.6	3.8	1.9	1.5	1.9	10.5	9.1	8.5	-1.6	-1.2	-1.3
Thailand	6.5	4.0	4.4	3.0	2.4	2.3	0.0	-0.1	-0.4	-2.1	-2.2	-2.1
Vietnam	5.3	5.1	5.4	9.3	6.6	7.1	5.8	3.3	1.5	-5.2	-4.8	-4.0
Latin America	2.4	2.4	2.9	5.8	7.2	6.6	-1.8	-2.1	-2.5	-2.2	-2.8	-2.8
Argentina	1.9	4.4	3.0	10.0	10.4	12.6	0.1	0.0	0.2	-2.6	-2.7	-3.6
Brazil	0.9	2.1	2.0	5.4	6.2	5.9	-2.4	-3.5	-3.1	-2.5	-3.6	-3.6
Chile	5.6	4.0	5.0	3.0	1.7	3.1	-3.5	-2.4	-2.5	0.6	-0.3	-0.4
Colombia	4.0	3.8	4.5	3.2	2.2	3.1	-3.2	-3.3	-3.2	-0.1	-1.1	-0.7
Mexico	3.9	2.0	4.2	4.1	3.8	3.4	-1.6	-1.5	-4.2	-2.6	-2.1	-2.0
Panama	10.7	9.0	8.0	5.7	4.6	4.4	-9.0	-10.2	-10.0	-2.1	-3.0	-3.0
Peru	6.3	5.5	6.0	3.7	2.6	2.6	-3.6	-4.0	-2.8	1.9	-0.6	-2.0
Venezuela	5.6	-0.5	1.5	21.1	34.7	32.5	3.1	5.3	7.2	-5.0	-4.0	-4.0
Europe	2.3	2.1	3.0	5.1	5.2	4.8	-0.1	-0.6	-1.5	-1.8	-2.3	-3.4
Bulgaria	0.8	1.0	2.0	0.0	2.2	3.6	-1.5	-1.7	-2.1	-0.5	-1.5	-0.7
Croatia	-2.0	-0.8	1.2	0.0	3.0	3.0	0.1	-0.2	-0.5	-2.4	-4.5	-4.0
Czech Republic	-1.2	-1.0	1.6	3.3	1.6	1.3	-2.4	-1.2	-0.9	-4.4	-2.8	-2.9
Hungary	-1.7	0.6	1.4	5.7	1.9	2.1	1.6	2.2	2.6	-1.9	-2.8	-2.9
Kazakhstan	5.0	4.2	3.6	5.1	6.0	5.9	3.5	2.5	1.2	0.8	2.7	1.9
Poland	1.9	1.3	2.8	3.7	1.1	2.2	-3.5	-2.2	-3.4	-3.9	-4.3	-3.9
Romania	0.4	1.6	2.8	3.3	4.5	2.8	-3.9	-3.0	-4.5	-2.2	-2.2	-2.5
Russia	3.4	2.1	2.8	5.1	6.5	5.1	3.9	2.8	0.9	-0.7	-2.0	-4.2
Serbia	-1.7	2.3	2.6	0.1	8.9	7.0	-10.6	-8.2	-8.5	-5.7	-5.0	-5.0
Slovakia	2.0	0.8	1.8	3.6	1.7	1.9	2.2	3.6	3.0	-4.3	-3.4	-3.2
Turkey	2.2	3.5	4.0	8.9	7.3	7.3	-5.8	-6.9	-6.8	-2.0	-2.2	-2.7
Ukraine	0.2	0.4	3.4	0.6	0.7	4.9	-8.4	-8.2	-5.7	-5.6	-4.5	-4.7
Africa/Mideast	5.1	4.7	5.6	4.9	5.3	6.0	9.7	6.1	4.3	3.0	-2.0	-3.8
Bahrain	3.5	3.6	4.4	2.8	4.0	2.5	6.9	-0.3	-3.8	-2.1	-3.2	-3.0
Egypt	2.2	1.1	2.3	7.1	9.8	10.6	-3.0	-2.3	-2.5	-10.9	-12.8	-11.9
Ghana	7.9	6.7	6.8	9.2	10.7	9.3	-12.1	-10.8	-10.4	-12.4	-10.1	-8.5
Iraq	11.0	7.9	9.8	6.1	6.0	6.0	13.5	8.7	6.7	6.6	-3.0	-3.5
Israel	3.0	3.2	3.0	1.7	1.6	2.3	-0.1	0.2	1.8	-3.7	-4.3	-3.0
Jordan	2.7	3.0	4.0	4.8	5.5	5.0	-18.2	-13.4	-11.5	-8.3	-8.2	-8.2
Kenya	4.6	5.5	6.1	9.4	5.6	6.6	-10.5	-10.1	-9.5	-9.0	-7.0	-5.5
Kuwait	7.0	3.6	3.7	2.9	5.0	5.0	49.1	47.0	43.9	24.0	13.0	6.5
Lebanon	1.5	2.0	4.5	6.4	5.0	5.0	-14.8	-15.9	-16.0	-8.8	-10.2	-10.5
Nigeria	7.4	6.5	6.9	12.2	8.6	10.4	4.0	2.3	0.4	-2.8	-2.6	-2.8
Oman	7.1	6.7	6.7	2.9	3.0	3.0	4.1	8.3	5.1	3.3	-2.2	-4.7
Qatar	6.0	8.3	7.2	3.0	3.0	3.0	28.5	17.9	9.4	5.5	2.4	0.5
Saudi Arabia	6.8	5.1	7.4	4.0	6.0	8.0	24.2	13.6	9.3	13.7	1.9	-3.5
South Africa	2.5	2.3	2.9	5.7	5.6	5.8	-6.1	-5.9	-5.7	-4.4	-4.9	-4.8
Tanzania	6.9	6.8	7.0	16.0	8.0	4.8	-11.9	-10.2	-13.3	-5.4	-5.0	-5.6
UAE	2.4	4.6	4.9	0.7	0.8	1.0	0.2	2.1	4.0	NA	NA	NA
Uganda	2.6	5.0	5.6	14.0	4.4	6.8	-9.7	-12.9	-14.8	-3.6	-3.4	-3.3
Zambia	7.3	6.9	7.5	6.6	7.1	7.3	-3.4	-0.5	2.8	-4.5	-4.2	-3.7
Total	4.7	4.6	5.0	4.6	4.7	4.6	1.7	1.1	0.6	-1.7	-2.4	-2.6

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

Sovereign Ratings Outlook

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

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

Figure 43. Advanced Economies — Sovereign Long-Term Debt Ratings and Citi Ratings Forecasts

	S&P Ratings				Moody's Ratings			
Country	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Near-term (Up to 9 Months) Forecast Rating	Citi Longterm (Next 2-4 Years) Forecast Rating & Outlook
US	AA+	Stable	AA+	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	AAA	Aaa	Neg	Aaa (Neg)	Aaa
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)	Aaa
Belgium	AA	Neg	AA (Neg)	AA- ↓	Aa3	Neg	Aa3 (Neg)	A1 ↓
Finland	AAA	Stable	AAA	AAA	Aaa	Stable	Aaa	Aaa
Greece	B-	Stable	B-	SD* ↓↓↓↓↓	C		C	C*
Ireland	BBB+	Positive	A- ↑	A- ↑	Ba1	Neg	Baa3 ↑	Baa2 ↑↑
Netherlands	AAA	Neg	AAA (Neg W)	AA+ ↓	Aaa	Neg	Aaa (Neg W)	Aa1 ↓
Portugal	BB	Negative	BB (Neg)	SD* ↓↓↓↓↓	Ba3	Neg	Ba3 (Neg)	C* ↓↓↓↓↓
UK	AAA	Neg	AAA	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

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Periphery EMU Ratings — Many Outlooks Still Negative

Spain — BBB-/Baa3 Negative still: Both Moody's and S&P detailed their Baa3/BBB- ratings of the Spanish sovereign in June. Although the periphery market has rallied and spreads continue to tighten, downgrade concerns remain a medium-term concern, largely because Spain (and Italy) remain on Negative Outlook by both Moody's and S&P. Spain was put on Negative Outlook almost a year ago, in October 2012, by both rating agencies independently. We detail exactly what this means for Moody's and S&P (which have different criteria) in our recent *European Rates Weekly - EMU spread outlook and downgrade concerns*. A simultaneous move by both rating agencies downgrading the Spanish sovereign (and hence ejecting it from Citi's EGBI) is not our base case in the near-term. Rating drivers going forward appear to be increasingly idiosyncratic, pertaining to domestic fundamentals, rather than wider systemic concerns which appear to be much less of a focus, than they were in 2011 for example.

Upcoming focus on Italy will likely be politics and the possibility of fresh elections

Italy — rated BBB by S&P: S&P downgraded Italy by one notch from BBB+ to BBB on 9 July citing the "*the effects of further weakening growth on Italy's economic structure and resilience, and its impaired monetary transmission mechanism*". S&P also detailed Italy's growth remained constrained by *"rigidities in Italy's labor and product markets"*. Separately, Moody's published their Credit Opinion on Italy on 29 July confirming the Baa2 Negative Outlook rating. Going forward, the near-term risk is clearly political, given the crucial Senate vote on 9th September (*Political Uncertainty: Germany and Italy in the Spotlight*).

Portugal was put back on negative outlook in July by S&P

Portugal — S&P outlook revised to negative: S&P stated (5 July) recent political developments "*complicate Portugal's already challenging policymaking environment and suggest even less room for manoeuvre than when we changed the rating outlook to stable in March 2013…We believe that growing political uncertainty could derail Portugal's forthcoming debt issuance and its hoped-for exit in 2014 from the Troika-sponsored support program"*. While the Outlook remains Negative, political concerns regarding the domestic situation have eased somewhat over the last month. While we remain cautious, the coalition looks likely to hold for the foreseeable future.

We continue to expect Ireland to be upgraded in the coming quarters

Ireland — positive outlook from S&P: Following S&P's decision on 12 July, Ireland is the only sovereign covered in our *Sovereign Ratings Outlook* to have a Positive Outlook. S&P upgraded its outlook for Ireland citing its debt burden was likely to fall more rapidly than previously expected. S&P's supplementary analysis on 9 August confirm that S&P now views that Ireland's general government debt burden is likely to decline more rapidly (as a % GDP) than previously expected.

Core and soft core ratings

Moody's comments on the negative outlook of the Netherlands

Moody's on the Netherlands: In a recent Issuer Comment (15 August) entitled "*Netherlands' Weak Consumer Confidence Undermines Growth and Fiscal Outlook*", Moody's highlights that Netherland's specific factors (from housing to the pension system) have contributed to a weak outlook. The Netherlands remains Aaa/AAA with Negative Outlook by both Moody's and S&P.

US now on Stable outlook by both Moody's and S&P

Moody's puts US rating back to Stable: Since we last published, Moody's changed its Outlook on the US from Negative to Stable (18 July). The US now has a Stable Outlook from both S&P (which rates the US AA+) and Moody's (which rates the US Aaa). As such, we see it unlikely that further changes will be made to the US rating over the near and longer-term.

Rates Forecasts Commentary

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With thanks to Brett Rose (US), Steven Mansell (APAC), Peter Goves (euro area) and Jamie Searle (UK)

US: Treasury yields now appear to almost fully reflect the Fed beginning to back away from QE purchases in 2013, with market consensus likely being September. If the Fed does announce it is curtailing purchases at the September FOMC, as we expect, we do not think that there would be much market reaction. Ongoing US economic data has remained mixed so we do not expect Treasury yields to move meaningfully higher until these data are more convincing. Our forecast calls for Treasury yields to rise throughout 2014, but this is contingent on our economic forecast that has GDP growth at just below 3% for the next six quarters. In the near term, we think that there is some opportunity for shorter maturity Treasury yields to move lower. The Fed has been emphasizing the point that the tapering of QE should not be interpreted as tightening and that it anticipates keeping the Fed Funds rate low for a considerable period of time after QE is completed. The Fed may explicitly lower the 6.5% unemployment target to 6%, which would more concretely reinforce this point. Currently we recommend a long position in 5yr Treasury securities, which would benefit from this type of a shift.

Europe: Citi no longer expects a further ECB rate cut later this year and in general growth forecasts have been revised upwards for countries including Germany, Spain and Italy. However, growth is only one component in computing yield forecasts. Our key message is that given accommodative ECB policy and a weak inflationary backdrop, we continue to see core rates largely range bound, albeit we have nudged higher slightly the mean of the expected range to 1.7% from 1.5% for the remainder of the year. This also takes into account the affect of the unexpectedly fast UST sell off. On a cross market basis, we maintain the medium-term de-coupling view between USTs and Bunds based on diverging fundamentals.

In terms of the EMU spread outlook, we continue to expect OAT spreads to Germany to be range bound in the near-term about 70bp. Spain and Italy spreads to Germany are converging and it's plausible that Bonos might trade through BTPs given the growing political uncertainty in Italy. Our economists expect elections some time over the coming quarters and, as such, we expect this to be reflected in spreads, forecasting 10yr spreads to Germany to average 300bp in Q4 2013 and Q1 2014.

Japan: The JGB yield will likely grind lower early next year after struggling to decline until the end of this year. Yields are expected to remain under upward pressure as we envisage a continued trend of equity gains and yen depreciation into next spring along with the Fed's QE3 tapering starting in September. That said, however, the cumulative effect on yields of the BoJ's large-scale long-term bond purchase program will probably be bold as time passes. By sector, the demand-supply balance of bonds with 5-10yrs to maturity is prone to tighten. Assuming a 3% consumption tax hike on schedule in April 2014, a temporary downturn in growth is envisioned, which will likely make it difficult for the BoJ to achieve its price stability target of 2%. Should PM Abe decide to push back the timing of the tax hike from April 2014, we expect volatility in yen rates would rise on receding confidence in Japan's fiscal discipline and upside expectations of economic growth and prices.

UK: The introduction of forward guidance by the MPC has done little to cap short-end rates so far. However, based on Citi's expectation that the first rate hike will be in 2017, we expect the 2yr gilt to be anchored around current levels and the 2s10s yield spread to bear-steepen over the coming months. On a cross-market basis, we expect 10yr gilts to underperform Bunds.

Figure 44. Interest Rate and Bond Market Forecasts as of 21 August 2013

		Quarterly Average					
	Current	4Q 13	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Libor	0.26	0.30	0.35	0.45	0.55	0.63	0.73
2 Year Treasury Yield	0.34	0.50	0.55	0.65	0.75	0.85	0.98
5 Year Treasury Yield	1.55	1.45	1.53	1.68	1.80	1.98	2.20
10 Year Treasury Yield	2.83	2.70	2.80	3.00	3.15	3.25	3.40
30 Year Treasury Yield	3.86	3.85	3.98	4.20	4.33	4.38	4.50
2-10 Year Treasury Curve	249	220	225	235	240	240	243
2 Year Swap Spread (Swap Less Govt), bp	18	20	20	20	20	20	20
10 Year Swap Spread (Swap Less Govt), bp	19	10	8	5	5	5	5
30 Year Swap Spread (Swap Less Govt), bp	-3	-12	-14	-18	-23	-25	-25
30 Year Mortgage Yield	4.59	4.55	4.60	4.70	4.80	4.93	5.13
10 Year Breakeven Inflation	213	240	245	248	243	240	240
Euro Area							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Overnight Rate (EONIA)	0.08	0.10	0.15	0.20	0.20	0.25	0.40
3-Month (EURIBOR)	0.15	0.25	0.25	0.30	0.30	0.35	0.35
2 Year Schatz Yield	0.24	0.15	0.15	0.15	0.20	0.20	0.30
5 Year Bobl Yield	0.79	0.65	0.80	0.80	0.80	0.80	0.90
10 Year Bund Yield	1.84	1.70	1.80	1.80	1.80	1.90	2.00
30 Year Bund Yield	2.64	2.50	2.50	2.50	2.50	2.60	2.70
2-10 Year Bund Curve	160	155	165	165	160	170	170
10 Year BTP-Bund Spread	246	300	300	275	250	250	250
10 Year Bono-Bund Spread	262	300	300	275	250	250	250
2 Year BTP-Schatz Spread	164	170	170	150	125	125	125
2 Year Bono Schatz Spread	156	170	170	150	125	125	125
10 Year OAT-Bund Spread	56	70	70	80	80	80	80
10 Year Swap Spread (Swap Less Govt.), bp	30	35	35	30	30	25	25
10 Year Breakeven Inflation	166	165	170	170	170	180	190
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	0.11	0.10	0.10	0.10	0.10	0.10	0.10
5 Year Treasury Yield	0.28	0.30	0.25	0.20	0.25	0.30	0.30
10 Year Treasury Yield	0.75	0.80	0.70	0.60	0.70	0.80	0.80
30 Year Treasury Yield	1.79	1.85	1.80	1.75	1.80	1.85	1.85
2-10 Year Treasury Curve	64	70	60	50	60	70	70
2 Year Swap Spread (Swap Less Govt.), bp	15	15	14	12	14	15	15
10 Year Swap Spread (Swap Less Govt.), bp	17	17	15	13	15	17	17
UK							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-Month Libor	0.51	0.51	0.51	0.51	0.51	0.51	0.51
2 Year Treasury Yield	0.40	0.35	0.35	0.40	0.40	0.40	0.40
5 Year Treasury Yield	1.63	1.60	1.70	1.70	1.75	1.80	1.85
10 Year Treasury Yield	2.69	2.70	2.80	2.85	2.90	3.00	3.15
30 Year Treasury Yield	3.68	3.70	3.75	3.80	3.85	3.90	4.00
2-10 Year Treasury Curve	229	235	245	245	250	260	275
10 Year Swap Spread (Swap Less Govt.), bp	2	5	5	5	0	0	0
10 Year Breakeven Inflation	284	290	295	295	300	310	320
Australia							
Policy Rate	2.50	2.50	2.50	2.50	2.75	3.00	3.00
3-Month Libor	2.62	2.55	2.60	2.70	3.05	3.25	3.25
2 Year Treasury Yield	2.38	2.60	2.70	2.80	3.20	3.60	3.60
5 Year Treasury Yield	2.95	3.20	3.30	3.30	3.65	4.00	4.00
10 Year Treasury Yield	3.75	4.00	4.10	4.10	4.30	4.50	4.50
2-10 Year Treasury Curve	137	125	125	115	100	80	80
10 Year Swap Spread (Swap Less Govt.), bp	49	60	60	65	65	70	70

Source: Citi Research

Commodities Market Outlook

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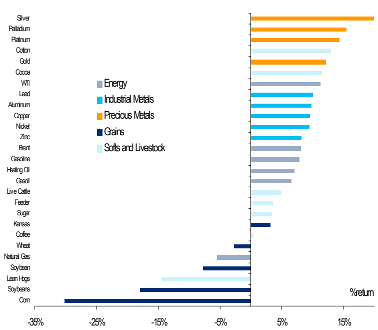
Commodities have by and large rebounded half way through 3Q, bouncing off their 1H lows, with 21 of the 27 highly liquid contracts tracked by the major indices in positive territory, a near exact reversal of 1H performance. Much of the risk reversal relates to more upbeat data from China, with an uptick in base metals and bulk commodity imports helping to support both industrial complexes. The entire precious metals complex also rebounded following massive ETF net redemptions during 1H, particularly 2Q, with most of the new support coming from physical buying in China and elsewhere in Asia, while the oil complex strengthened from a combination of seasonal factors (summer demand, high field maintenance), supply disruptions and the end of bottlenecking for US-priced WTI. Grains prices have continued to ease this quarter on the prospects of a robust US supply rebound in advance of the 4Q harvest, albeit late seasonal weather patterns and official agency yield downgrades have also lifted cereal prices off their recent lows.

Figure 45. Nominal Commodity Price Changes in 3Q'13 (Quarter-to-Date through 16 August)



Source: Bloomberg, Citi Research

With the end of cross-asset correlations, the time looks ripe for increased investor allocations to commodities, but it is probably far too early to call the end of the commodity bear market. Year-to-date net outflows from commodity indices have scaled back to $6.7Bn through the end of July versus a 2013 trough of $13Bn in net withdrawals during the middle of 1Q, with weekly outflows remaining in negative territory since May. YTD outflows, including physical ETF net withdrawals appear to be well north of $20 billion, a near 5-fold increase from 2012 and a complete fillip from 2011 when the market posted net inflows of an equivalent amount. North American producer hedging one and two-years ahead is up some 300% year/year.

Citi's one major change in the price outlook this month is for US natural gas, where Citi has changed a mildly bullish forecast into a bearish projection for the rest of 2013. Citi remains neutral to bearish most other commodities, given the continued subdued and challenging outlook for Chinese growth, lagging global demand, and supply growth through sustained capex.

Citi is lowering US Henry Hub natural gas price forecasts for 2013, 2014 and 2015. Several key factors drove these changes. (1) Temperatures have fallen sharply particularly starting in late July by about 9% below the 10-year average in an unusually mild weather pattern for this time of the year. (2) Price-sensitive demand has remained stagnant despite the fall in gas prices likely because weather-normalised electricity demand growth - a way to observe macro and price-driven demand outside of weather influence - has been flat to negative in most regions in the U.S. In addition, coal-fired generation has been very competitive vis-à-vis natural gas because of the fall in global and US coal prices reducing the cost of generation. (3) Supply continues to edge higher primarily on stronger domestic production. Very robust oil and liquids production in the U.S. also comes with a sizeable amount of associated natural gas, adding to supply. Therefore, with supply stronger but demand hurt by mild weather and a lack of robust response to lower prices, the supply-demand balance has loosened. With these changes on the fundamentals, 2013 prices are revised lower from $4.05 to $3.60/MMBtu, 2014 from $4.15 to $3.70, and 2015 from $4.70 to $4.50.

Two broad forces are meeting head to head to drive oil markets. On one hand, there is the bearishness of the shale revolution driving massive production growth in North America, with the US Midwest well supplied broadly speaking, and increasingly well connected to the US Gulf Coast via rapid pipeline build-out. On the other hand, there are the bullish geopolitical flare-ups in the Mideast and North Africa, most noisily in Egypt and less noisily in Libya (but the latter of which is more impactful in fundamental terms), joined by supply disruptions in Iraq, Iran and

elsewhere. Brent has moved to the $110 level, but Citi continues to see Brent easing into 4Q and through next year. WTI has surged more than Brent as crude inventories in Cushing, Oklahoma draw down but should hit "minimum" operating levels in 4Q, keeping Brent-WTI narrow for now. Given bearish Brent but a persistent narrow Brent-WTI spread in the next quarter, Citi is more neutral WTI.

Expectations remain intact for a sharp rebound in US and world grain inventories for the 2013/14 marketing cycle, led by robust production growth in the Americas for corn and soybeans and a global rebound in wheat output. Prices for these benchmark crops have already declined 10-30% in the year-to-date, following two seasons of heightened price volatility and harvest short-falls since 2010 amid trade bans, drought and tight stockpiles. Lower grain prices should benefit a broad array of consumers in the livestock, grocery and retail industries, among others, and could be particularly beneficial for emerging market economies. The FAO in its July report already noted the impact for lower food inflation as staple cereal balances have loosened with Citi forecasting these lower ranges to persist through 2014.

The base metals complex has seen prices rally significantly since the beginning of August, with headline copper 3M prices picking up by 8% from $6,890/t to month to-date highs of $7,420/t during trading on Aug 16th, similar to recoveries seen in much of the rest of the complex. However, much of this price exuberance has been due to technical market factors, most notably short covering on the back of a weaker US dollar and more positive than expected Chinese macro data, rather than fundamentals. On the one hand, real Chinese metals demand growth remains sluggish, with little sign of any restocking in the supply chain. 1H Chinese copper cable production has contracted by 8.2% y/y, hardly a sign of burgeoning real copper demand growth. On the other hand, 2Q'12 was the fifth quarter in a row of better than expected copper mine supply growth, with Citi's own 5.4% mine supply growth expectation for 2013 likely an underestimate partly due to significantly below trend supply losses. Over-supply is now a dominant market feature for much of the complex, suggesting that the August rally increasingly looks overdone.

As for bullion-dominated precious metals, 54% of 1H'13 growth in Chinese gold consumption, as reported by the Chinese Gold Association, combined with the 'will they, won't they' debate over the timing of Federal Reserve tapering of asset purchases, has seen a bullish tinge return to the gold market. Comex spot prices have jumped from June lows of $1,180/t to trade as high as $1,384/t on August 19. However, we remain unconvinced that this is a sustainable rally. Positive Chinese and Indian 1H'13 demand remains insufficient to counter the significant outflow from physical gold ETFs, while central bank gold buying stuttered in 2Q, in part due the dramatic April pull back. Whilst Asian consumers seem to prefer gold at lower prices, institutional investors, and to a lesser extent, central banks, still do not. With mine supply continuing to increase, the jewelry markets in Asia will have to absorb still more gold in 2H'13, while the issue of Fed Tapering remains crucial. Citi continues to expect Fed tapering will occur sooner rather than later, i.e. September, with resultant dollar strength likely to reverse recent gold gains.

Figure 46. Three to Six Month Commodity Market Outlook*

	Bullish	Neutral	Bearish
Energy		WTI	Brent, US Natural Gas
Base Metals	Nickel	Aluminium	Copper, Lead, Zinc
Precious Metals	Palladium	Platinum	Gold, Silver
Bulks		Met Coal, Thermal Coal	Iron Ore
Agriculture		Wheat, Cotton, Coffee	Com, Soybeans

Source: Citi Research, *subject to revision; based on current market levels and forward curve 19 August 2013.

Figure 47. Commodities Price Forecast*

		Point Prices															
		0-3M	6-12M		Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013E	Q4 2013E	Q1 2014E	Q2 2014E	Q3 2014E	Q4 2014E	2013E	2014E
Energy				5Y Cyclical													
NYMEX WTI	USD/bbl	100.0	92.5	81.0	92.2	88.2	94.1	94.4	94.2	99.0	96.0	95.0	90.0	95.0	87.0	95.9	91.8
ICE Brent	USD/bbl	105.0	97.5	85.0	109.4	110.1	111.7	112.6	103.4	105.0	100.0	100.0	95.0	100.0	95.0	105.3	97.5
Henry Hub Natural Gas	USD/MMBtu	3.40	3.60	N/A	2.87	3.39	2.75	3.48	4.03	3.40	3.40	3.70	3.60	3.70	3.90	3.60	3.70
Base Metals				LT Price													
LME Aluminum	USD/MT	1,750	1,900	2,200	1,944	2,017	2,049	2,042	1,874	1,790	1,770	1,800	1,830	1,850	1,880	1,870	1,840
LME Copper	USD/MT	6,600	6,300	6,200	7,711	7,921	7,945	7,964	7,204	6,900	6,750	6,700	6,600	6,300	6,400	7,205	6,500
LME Lead	USD/MT	1,900	2,300	2,200	1,984	2,200	2,072	2,314	2,066	1,980	2,000	2,050	1,900	1,950	2,000	2,090	1,975
LME Nickel	USD/MT	14,000	16,000	20,000	16,383	17,036	17,592	17,387	15,103	14,200	14,500	15,000	16,000	17,000	17,500	15,295	16,375
LME Tin	USD/MT	19,000	20,500	20,000	19,281	21,547	21,108	24,128	20,997	19,300	19,200	19,500	20,000	21,000	21,500	20,905	20,500
LME Zinc	USD/MT	1,750	1,850	2,100	1,902	1,979	1,963	2,057	1,876	1,820	1,800	1,820	1,850	1,850	1,870	1,890	1,850
Precious Metals				LT Price													
COMEX Gold	USD/T. oz	1,100	1,150	1,050	1,654	1,718	1,669	1,632	1,429	1,220	1,150	1,100	1,130	1,160	1,180	1,358	1,145
Silver	USD/T. oz	17.5	18.0	16.5	29.9	32.6	31.2	30.1	23.5	18.5	18.0	17.5	17.8	18.2	18.4	22.5	18.0
Platinum	USD/T. oz	1,400	1,500	1,531	1,500	1,600	1,552	1,634	1,474	1,365	1,425	1,425	1,450	1,500	1,525	1,474	1,475
Palladium	USD/T. oz	750	820	680	613	653	645	741	716	685	725	750	800	800	850	717	800
Bulk Commodities				5Y Cyclical													
Hard Coking Coal (benchmark Asia)	USD/MT	145	170	200	225	170	211	165	172	145	155	170	170	170	170	159	170
Thermal Coal Asia (NEWC)	USD/MT	79	88		88	86	94	91	81	79	82	88	88	88	88	83	88
Iron Ore Spot (TSI)	USD/MT	115	115	81	112	121	128	148	126	115	115	115	115	115	115	126	115
Agriculture																	
CBOT Corn	USd/bu	500	493	N/A	783	737	695	715	661	550	495	485	500	520	520	605	505
CBOT Wheat	USd/bu	670	703	N/A	870	846	750	738	695	670	685	700	705	700	720	695	705
CBOT Soybeans	USd/bu	1,200	1,160	N/A	1,675	1,485	1,465	1,448	1,468	1,300	1,175	1,150	1,170	1,170	1,140	1,350	1,160
CBOT Rice	USD/cwt	15.4	15.3	N/A	15.3	15.1	14.9	15.3	15.5	15.4	15.2	15.3	15.3	15.5	15.0	15.4	15.3
NYB-ICE Cotton	USd/lb	88	88	N/A	73	73	80	82	85	85	88	85	90	90	88	85	88
Sugar#11	USd/lb	17.0	18.0	N/A	21.0	19.6	21.6	18.4	17.1	17.0	17.0	17.5	18.0	18.0	18.0	17.4	17.9
ICE Coffee	USd/lb	125	130	N/A	172	152	175	144	131	125	130	130	130	135	135	133	133
ICE Cocoa	USD/MT	2,300	2,325	N/A	2,440	2,420	2,348	2,176	2,280	2,300	2,350	2,325	2,325	2,325	2,325	2,280	2,325

Source: Citi Research, *subject to revision

Figure 48. Citi Global Economics Team For Informational Purposes Only

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Notes

Notes

Notes

Appendix A-1

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Other Analyst Disclosures
Rohini Malkani is on a three months leave of absence for the period July 15 2013 to October 14 2013. During this period, she will be working for the Ministry of Finance, India and she will cease all normal course business activity as an Economist at Citi.

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