

Economics

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Euro Weekly

It's National Interests, Stupid

- Probably because of a conflict with national interests ahead of important elections in Finland and Germany, the EU Council postponed important decisions on how to increase the lending capacity of the EFSF and the reduction of the interest rate for the Irish loans.
- However, by adopting the *Euro Pact Plus* and the term sheet of the ESM, the EU Council made clear that Europe is still on its way to more economic and fiscal integration.
- Regarding the ESM, as proposed earlier, the facility will get preferred creditor status and support from the ESM expects also private sector involvement. In our view, the ESM probably will have difficulties in getting to its full lending capacity of €500bn (Jürgen Michels, see page 2).

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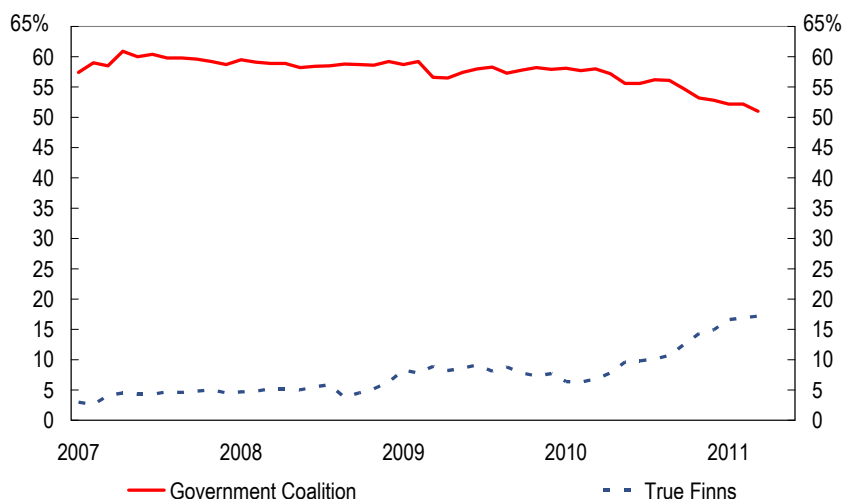
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Figure 1. Citi Market Forecast

	\$/€	Euro Repo	10-yr Bunds	£/€	U.K. Bank Rate	10-yr Gilt-Bund	SKr/€	SEK Policy Rate	NOK/€	NOK Policy Rate	SFr/€	CHF Policy Rate	CHF Spread vs Bunds
End 3Q 11	1.42	1.50	3.50	0.86	1.00	49	8.86	2.25	7.76	2.50	1.30	0.50	-125
End 1Q 12	1.45	1.75	3.80	0.84	1.50	50	8.70	2.75	7.70	3.00	1.36	1.00	-115

Source: Citi Investment Research and Analysis

Figure 2. Finland — Opinion Polls for General Election, 2007–Mar 2011



Sources: Taloustutkimus and Citi Investment Research and Analysis

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

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It's National Interests, Stupid

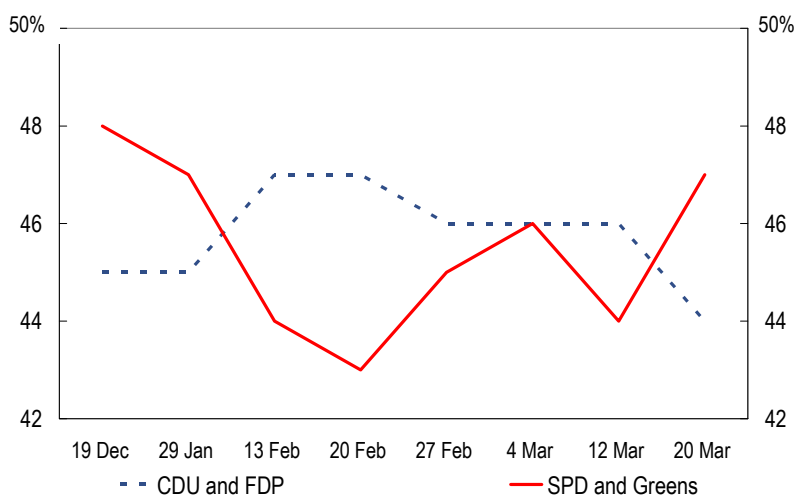
EU Council meeting did not provide a "grand deal"

The Council meeting the EU Heads of State and Government did not deliver a "grand deal". While the European leaders managed to approve the framework for the future European Stability Mechanism (ESM) and to give a green light for the Pact for Competitiveness (now called the Euro Plus Pact), they were not able to make much progress on the currently most time-critical topics: the extension of lending capacity of the EFSF and the reduction of the interest rates of the rescue package loans to Ireland. The delay in the decisions on these most critical issues is mainly due to national interests. However, we remain confident that — probably forced by renewed market pressure — the extension of the EFSF's lending capacity will be approved by June. While the rescue facility would then be able to provide sufficient funding for Spain it will be still too low to provide assistance to Belgium or Italy in an emergency situation.

Difficult to increase lending capacity of EFSF

The decision on how to extend the lending capacity of the EFSF is difficult. There are two ways to increase the lending capacity of the EFSF. One is through an increase of the guarantees by all member countries — which effectively means that the AAA rated member countries will take the whole burden because the rating agencies do not count guarantees by non-AAA states. The other one is through a mixture of paid-in capital and guarantees — similar to the ESM — in which the non-AAA states have to make cash injections into the EFSF. This will be very difficult to realize, given the already strained funding situation of some of the non-AAA rated countries, which have to contribute to the extension of the EFSF — like Portugal (as long as it has not requested help from the EFSF itself) and Spain. Therefore, to us, the guarantee-only option looks more likely.

Figure 3. Germany — Opinion Polls for Baden-Württemberg State election, Dec 10-Mar-11



Sources: Emnid and Citi Investment Research and Analysis

Election calendar postponed EFSF decision

With upcoming elections in AAA-rated states Germany and Finland — where large parts of the population are against greater financial commitments to support weaker member countries — governments delayed the decision on the EFSF. Finland, where a general election will take place on April 17, probably was the main driver to delay the EFSF decision. According to opinion polls, the current government coalition has lost around 5 points in the share of votes since June last year to 51% in March, while the anti-European *True Finns* party showed strong gains of around 7 points in the same period to around 17% (see Figure 2 on the front page). In Germany, opinion polls suggest that Angela

Merkel's centre-right government coalition is likely to lose power in the important regional election in Baden-Württemberg, which will take place this Sunday, March 27 (see Figure 3). While the recent loss in votes for the ruling CDU and FDP is mainly due to the heated debate on nuclear energy, caused by the catastrophe in Japan, the government coalition does not want to upset their traditional voters by additional financial commitments to other euro area countries before the election. Note, that in case of a defeat in this state election, Angela Merkel's government will come under severe pressure and a break-up of the coalition cannot be ruled out.

Lighter national events calendar up to June

Apart from the likely upcoming election in Portugal, there are probably no larger election disturbances in the pipeline up to June (see Figure 4). However, in Germany the still outstanding decision of the Constitutional Court on the country's participation in the Greek package and the EFSF might be taken in the period up to June.

Figure 4. Europe — Main Political Events

Date	Country	Event
Mar 27 2011	Germany	State Elections in Baden-Wuerttemberg and Rhineland Palatinate
Apr 7-9	European Union	Informal ECOFIN Meeting of EU-27 Finance Ministers, Budapest
Apr 17	Finland	General Election
May 13	EU	EU Commission Releases Spring Economic Forecasts
May 16	Euro Area	Eurogroup Meeting of Euro Area Finance Ministers
May 17	European Union	ECOFIN Meeting of EU-27 Finance Ministers
May 22	Germany	State Elections in Bremen
May 23	Netherlands	Senate Election (indirect)
Jun 14	Euro Area	Eurogroup Meeting of Euro Area Finance Ministers
Jun 15	European Union	ECOFIN Meeting of EU-27 Finance Ministers
Jun 24	European Union	European Council of EU Heads of State & Gov't, Brussels
Sep 4	Germany	State Elections in Mecklenburg-Vorpommern
Sep 18	Germany	State Elections in Berlin
October	Ireland	Presidential Election
Nov 12	Denmark	Parliamentary Elections and EU Opt-Out Referendum must have been held by now
2012		
March	Spain	General Election
April	France	Presidential Election (second round, if necessary, in May)

Source: National sources and Citi Investment Research and Analysis

Still possible to have EFSF extension to €440bn in June

We expect that once the elections in Germany and Finland are passed, the Eurogroup — euro area finance ministers — will make a decision on how to increase the EFSF lending capacity. This decision will then have to be approved by the national parliaments, and the EU Council and the European Parliament are likely to adopt the decision in June. However, as the politicians missed the March EU Council meeting deadline to increase the lending capacity of the EFSF, we have to be careful not to take for granted the new commitment that the €440bn lending capacity of the EFSF will be in place in June. Depending on what measures are chosen to increase the lending capacity, it might take even longer before the EFSF will be able to effectively lend €440bn.

ESM still has to take the “Treaty Change Hurdle”...

Although the Council adopted the framework (term sheet) of the ESM that shall be put in place in July 2013, there are several hurdles that the ESM has to take. First, the required change of the European Treaty has to be enacted. While the European Council and the European Parliament this week adopted the limited Treaty change to allow the establishment of the ESM, the ratification of this Treaty change by all 27 EU member states is still outstanding. Although this ratification does not require a referendum in any member state, it may take a while — maybe even until early 2013 — before all countries will have ratified this Treaty change.

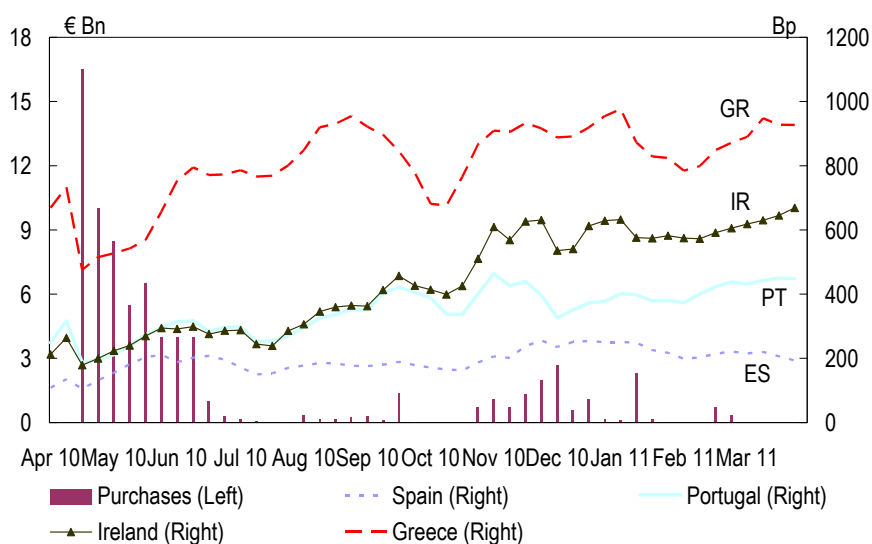
...and the approval of the term sheet by national parliaments and the European Parliament

ESB likely to end SMP this summer

Second, the ESM term sheet has to be fully approved. For this, the euro area governments have to get approval for their participation in the ESM by their national parliaments — which might be lengthy in some countries with volatile political conditions. Furthermore, the European Parliament has to approve the measures. It seems that ECB President Jean Claude Trichet found support in the European Parliament for his proposal to give the ESM a larger scope (including purchases of government bonds in the secondary market) in combination with the introduction of tighter fiscal rules (including automatic sanctions on countries breaching the rules of the Stability and Growth Pact). So it cannot be ruled out that the European Parliament will not approve the current version of the ESM framework and might send it back to the EU Council for adjustments.

In that respect, it is worth mentioning that the ECB might react to the Council decision of not giving the EFSF and the ESM the power to purchase government bonds in the secondary market. In our view, a likely ECB reaction would be to end its Securities Market Program (SMP) once the changes in the EFSF are adopted in June. Interestingly, in contrast to the pattern earlier this year, the ECB has recently not purchased bonds under the SMP, despite the widening of periphery market bond spreads in recent weeks (see Figure 5).

Figure 5. Selected Countries — 10-year Bond Spreads Vs. Germany and ECB Bond Purchases, 2010–Mar 2011



Source: Citi Investment Research and Analysis and national sources

No big surprises in ESM term sheet

Regarding the details of the ESM, the term sheet does not include many surprises compared to the guidelines on the ESM, which the Eurogroup published on 28 November 2010. The term sheet made clear that financial assistance to a member state will be only offered under “*strict conditionality under a macro-economic adjustment programme*” and that an “*adequate and proportionate form of private-sector involvement will be expected*”. Hence, bond holders of sovereigns that are expected to use the ESM will have to prepare themselves to make contributions — in our view Greece, Ireland and Portugal will have to do this pretty quickly after the ESM has been introduced. While this might be the first stage in an extension of the duration of existing bonds, it probably (at least in the case of Greece) will also include haircuts on interest rates and the amount of outstanding debt. In line with the earlier November

statement, the ESM — which will have the status of an intergovernmental organization — will receive preferred creditor status, only junior to the IMF. This is different to the current status of the EFSF (see Figure 6). Note that because of this preferred creditor status of the ESM, existing bond-holders will become subordinated. This might cause downward revision of sovereign debt ratings of weak euro area member countries. In addition, from mid-2013 onwards, all new European government bonds will have to come with Collective Action Clauses (CAC).

Figure 6. Details of the Rescue Facilities

	EFSM	EFSF	ESM (from 2013 onwards)
Approval of Facility	Ecofin, qualified majority	Eurogroup, requires national Parliamentary Approval	European Council, European Parliament, National Parliaments of euro area countries, Requires change of EU Treaty which has to be ratified by all 27 EU countries
Operational	From May 2010 onwards	August 2010 to June 2013 (for new financial assistance programs)	From July 2013 onwards
Lending Capacity	€60bn	Currently €255bn (target €440bn)	Unclear
Funding Provided (Guaranteed) by	Guaranteed by EU Budget; Issuance of EU Community Bonds	Guaranteed by Euro Area Member States, Maybe Paid-in Capital; Issuance of EFSF Bonds	Target of €80bn capital provided by Euro Area Member States and callable capital and Guarantees of Euro Area Member States; Issuance of ESM Bonds
Available to	All EU States	Euro Area Member States	Euro Area Member States
Approval of Funding		Eurogroup, unanimous; based on proposal from EU Commission, IMF in liaison with ECB	ESM Governors who are euro area finance minister, unanimous; funding only in case of liquidity crisis based on sustainable debt analysis by EU Commission, IMF in liaison with ECB, involvement of private sector
Creditor Status	Preferred Creditor Status, Junior to IMF	Pari passu with private investors	Preferred Creditor Status, Junior to IMF, Introduction of Collective Action Clauses (CAC) in 2013

Source: Citi Investment Research and Analysis

Details on the ESM funding structure

The funding structure of the ESM will be different to the current way the EFSF is funded. The ESM will have a paid-in capital of €80bn and additional €620bn capital provided by callable capital and guarantees from the euro area countries. The capital subscription key will be based on the ECB capital subscription key, but Slovakia managed to negotiate a discount for recently joined euro area states.¹ With its €700bn potential capital, the ESM plans to get an AAA rating and to have a lending capacity of €500bn — this would be the same as the EFSF (when the extension of the lending capacity to €440bn is approved) and the EFSM with its €60bn. This means that the ESM will operate with a 40% “over guarantee”.

ESM has only small lending capacity at the beginning

However, in our view there might be some problems in achieving the lending capacity of €500bn quickly. First, after the intervention from Germany, the paid-in capital will only start in 2013, with five annual installments (€16bn each), and will reach the €80bn target only in 2017. During this transition period, the ESM shall have a “*minimum 15% ratio between paid-in capital and the outstanding amount of ESM issuance*”. This either means that the ESM is strongly restricted in issuing and lending in the first years, e.g. €107bn in 2013 and €213bn in 2014, or that the member countries might have to pay-in additional capital earlier. Furthermore, we doubt that countries that are currently or in the near future receiving assistance from the EFSF (Greece, Ireland and Portugal) will be able to make their capital contribution at all in the period up to 2017. These countries together have a share of 7% (€5.5bn out of the 80bn paid-in capital).

¹ Member States with a GDP per capita of less than 75% of the EU average will benefit from a temporary correction for a period of 12 years after their entry in the euro area. This temporary correction will be three quarters of the difference between (Gross National Income) GNI and ECB capital shares (effectively comprising of 75% of GNI share and 25% of ECB capital share) as follows: ESM share = ECB key share – 0.75*(ECB key share - GNI share)

**Additional capital injections of non-AAA
rated countries necessary to get to
€500bn lending capacity of ESM**

It is also unclear how the rating agencies treat callable capital compared to guarantees. Our view is that it will be a similar treatment. This suggests that — as we have learned earlier — the rating agencies, in order to give the ESM an AAA rating, will not accept guarantees or callable capital from the non AAA rated countries. With a share of the AAA-rated countries of 58% of the total ESM capital, this means that the rating agencies will accept only €360bn out of the €620bn of callable capital and guarantees in order to give the ESM an AAA rating. Hence, unless the non-AAA rated countries pay-in additional capital, the total lending capacity of the ESM in 2017 will be around €435bn, the combination of €360bn backed by AAA rated countries guarantees and the €75bn of paid in capital (assuming that Greece, Ireland and Portugal will not pay-in their capital by then).

Muddle through process continues

To sum up, the March EU Council meeting was a powerful reminder of how important national interests in the EU are. While the Heads of State and Governments made clear that they are on the path of more integration, the way to get there is bumpy and it probably requires another crisis — or severe market pressure — to overcome national interests. Hence, the piecemeal process of dealing with the crisis — the European muddling through approach — is likely to continue.

Key Economic Indicators (28 March – 1 April 2011)

Monday 28 March		Forecast	Last
08:30	Sweden: Retail Sales, Feb	0.2% MM SA, 4.0% YY NSA	-0.1% MM SA, 2.8% YY NSA
11:00	Ireland: Retail Sales, Feb		
Tuesday 29 March		Forecast	Last
	Germany: HICP, Mar Preliminary	0.5% MM, 2.2% YY	0.6% MM, 2.2% YY
	Consumer Prices (National), Mar Preliminary	0.5% MM, 2.2% YY	0.5% MM, 2.1% YY
07:00	Germany: GfK Consumer Confidence, Apr		
07:45	France: Manufactured Goods Consumption, Feb	0.3% MM, 4.4% YY	-0.5% MM, 2.4% YY
09:30	UK: Balance of Payments, 4Q	£-11.0 Billion	£-9.6 Billion
09:30	UK: GDP Details, 4Q	Provisional: -0.6% QQ, 1.5% YY	3Q: 0.7% QQ, 2.5% YY
09:30	UK: No. of Mortgage Commitments for Home Purchase, Feb	45,000 MM, -4.5% YY	45,723 MM, -4.7% YY
09:00	Italy: Business Confidence, Mar	102.7	103
Wednesday 30 March		Forecast	Last
08:00	Spain: Real Retail Sales, Feb	-3.0% YY	-4.9% YY
08:00	Spain: HICP, Mar Preliminary	3.7% YY	3.4% YY
08:30	Netherlands: Producer Prices, Feb		
09:00	Italy: Contractual Wages, Jan-Feb	2.1% YY	1.7% YY
09:30	UK: Service Sector Output, Jan	1.4% MM, 1.7% YY	-1.4% MM, -0.6% YY
10:00	Euro Area: Economic Confidence, Mar	107.3	107.8
	Industrial Confidence, Mar	7	7
	Consumer Confidence, Mar Final	-11	-10
10:30	Switzerland: KOF Economic Barometer, Mar		
11:00	UK: CBI Retail Survey, Mar		
11:00	Ireland: Unemployment Rate, Mar		
Thursday 31 March		Forecast	Last
00:01	UK: GfK Consumer Confidence, Mar		
07:00	Germany: Retail Sales, Feb	0.8% MM	0.4% MM
07:45	France: General Government Deficit, 2010	7.2% of GDP	7.5% of GDP
07:45	France: Producer Prices, Feb		
07:00	UK: Nationwide House Prices, Mar		
08:30	Netherlands: Maastricht Deficit & Debt, 2010		
08:55	Germany: Unemployment, Mar	-8K MM	-52K MM
09:00	Norway: Credit Indicator C2, Feb	6.2% YY	6.1% YY
09:00	Norway: Retail Sales, Feb		
09:00	Italy: Producer Prices, Feb		
10:00	Italy: HICP, Mar Preliminary	2.9% YY	2.1% YY
10:00	Euro Area: HICP, Mar Preliminary	2.4% YY	2.4% YY
11:00	Ireland: Trade Balance, Jan		
	Greece: Retail Sales, Jan		
Friday 1 April		Forecast	Last
07:30	Sweden: PMI, Mar	60.5	60.9
08:00	Norway: Registered Unemployment, Mar	3.0%	3.0%
08:00	Norway: PMI, Mar SA	59.1	58.7
08:15	Switzerland: Retail Sales, Feb		
09:00	Italy: Unemployment Rate, Feb	8.6%	8.3%
09:00	Euro Area: Manufacturing PMI, Mar Final	57.7	59.0
09:30	UK: Manufacturing PMI, Mar		
10:00	Euro Area: Unemployment, Feb	9.8%	9.9%
18:00	Italy: State Sector Borrowing Requirement, Mar	€-18.7 Billion	€-8.0 Billion

Sources: National statistical offices, central banks and Citi Investment Research and Analysis

Economic Indicators

Euro Area

Mar 30 10:00 London Time	Economic Confidence, Mar	Forecast: 107.3	Prior: 107.8
	Industrial Confidence, Mar	Forecast: 7	Prior: 7
	Consumer Confidence, Mar	Forecast: -11	Prior: -10

Although some countries reported further gains in industrial sentiment, the already reported decline in the flash estimate for consumer confidence suggests that the headline economic confidence reading is likely to show the largest decline since May 2010 (there was only one small decline since then of 0.1 points MM in January 2011).

Mar 31 10:00 London Time	HICP, Mar Preliminary	Forecast: 2.4% YY	Prior: 2.4% YY
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Thanks to favourable base effects, the euro area inflation rate is likely to be stable in March. However, there is some risk that an even larger-than-expected increase in energy prices will lead to an increase in inflation to 2.5% YY in March.

Apr 1 09:00 London Time	Manufacturing PMI, Feb Final	Forecast: 57.7	Prior: 59.0
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We expect a confirmation of the flash estimate, showing a 1.3 point MM drop in March. However, the March reading is still 1¼ standard deviations above the long-term average.

Apr 1 10:00 London Time	Unemployment Rate, Feb	Forecast: 9.8%	Prior: 9.9%
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Mainly due to temporary distortion in the seasonal adjustment procedure – because of unusual winter weather patterns – we expect that the unemployment rate will decline for a second consecutive month in February. However, a reversal in March is likely.

Germany

Mar 29	HICP, Mar Preliminary	Forecast: 0.5% MM, 2.2% YY	Prior: 0.6% MM, 2.2% YY
	Consumer Prices (National), Mar Preliminary	Forecast: 0.5% MM, 2.2% YY	Prior: 0.5% MM, 2.1% YY

Despite benign base effects, inflation is likely to stay elevated in March. Higher prices for energy and probably food are likely to be the main drivers for the increase in headline inflation.

Mar 31 07:00 London Time	Retail Sales, Feb	Forecast: 0.8% MM	Prior: 0.4% MM
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We expect a third consecutive increase in retail sales in February. Hence, retail sales in the first two months of 1Q would be up by 1.1% QQ. After a surge in January of 5.8% MM, car sales probably will increase only modestly by 0.4% MM.

Mar 31 08:55 London Time	Unemployment, Mar	Forecast: -8K MM	Prior: -52K MM
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After the large fall in unemployment in January and February – which was probably downwardly distorted by the seasonal adjustment procedure amid the unusual weather pattern this winter – we expect only a small decline in unemployment claims in March. However, ongoing gains in employment plans suggest that the trend of lower unemployment is continuing. We expect that the unemployment claimant rate will stay unchanged at 7.3% in March, a record low for Germany after unification, and the ILO defined unemployment rate is likely to decline from 6.5% in January to 6.4% in February.

France

Mar 29 07:45 London Time	Manufactured Goods Consumption, Feb	Forecast: +0.3% MM, 4.4% YY	Prior: -0.5% MM, 2.4% YY
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The substantial increase in car registrations suggests a rebound in manufactured goods consumption in February.

Mar 31 07:45 London Time	General Government Deficit,	Forecast: 7.2% of GDP	Prior: 7.5% of GDP
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Although the central government deficit increased further in the course of the year due to the “grand loan” programme, we expect that the general government deficit based on the European definition will decline somewhat.

Italy

Mar 29 10:00 London Time	Business Confidence, Mar	Forecast: 102.7	Prior: 103
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Business sentiment declined in Feb after several consecutive months of gains, probably on the back of higher oil prices and political turbulence in North Africa. We reckon the same factors may have weighed on the March reading, together with expectations for higher interest rates. The index remains just above its long-term average, suggesting modest expansion in industrial activity.

Mar 30 09:00 London Time	Contractual Wages, Jan and Feb	Forecast: 2.1% YY	Prior: 1.7% YY
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Wage inflation remains close to historically low levels, although the recent renewals of some contracts may have lifted the YY rate slightly above the 1.5% YY area reached at the end of last year. The situation in the labour market remains difficult and we do not expect wage pressures to start resurfacing anytime during 2011.

Mar 31 10:00 London Time	HICP, Mar	Forecast: 2.9% YY	Prior: 2.1% YY
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The methodological change in the treatment of seasonal products introduced in Jan 11 in the HICP index implies that HICP inflation has been artificially dampened – by around 0.5pp – in the first two months of 2011. We expect this distortion to be reversed in March, with inflation shooting back up close to 3%. CPI inflation – unaffected by methodological changes – should increase by less, from 2.3% to 2.8%, due to base effects and higher energy prices. This would be the highest level for Italian inflation since Oct 2008.

Apr 1 09:00 London Time	Unemployment, 4Q	Forecast: 8.6%	Prior: 8.3%
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The unemployment rate likely rebounded in Q4, as suggested by monthly data, mainly on the back of a rising labour force. Employment growth probably was positive (+0.3% QQ) for the first time since 1Q 2008. However, we think we are not still at the point of the recovery where positive net job creation can be expected to be sustained in the coming quarters.

Economic Indicators

Italy (Cont'd)

Apr 1 18:00	State Sector Borrowing Requirement, Mar	Forecast: €-18.7 Billion	Prior: €-8.0 Billion
London Time	Budgetary data have continued to improve in recent months, thanks mainly to falling public expenditure. Fiscal revenues are still quite weak, but showing signs of stabilisation relative to 2010. We reckon this trend is likely to continue in coming months.		

Spain

Mar 30 08:00	Real Retail Sales Adj., Feb	Forecast: -3.0% YY	Prior: -4.9% YY
London Time	Retail spending in real terms weakened dramatically around the turn of the year (-1.7% QQ in the three months ending in Jan), probably reflecting the negative impact of higher inflation and the progressive feeding through of fiscal tightening. We think these factors are likely to keep the pattern in private spending very weak. We expect a further decline by 0.5% MM in real terms in February.		
Mar 30 08:00	HICP, Mar	Forecast: 3.7% YY	Prior: 3.4% YY
London Time	The methodological change in the treatment of seasonal products introduced in Jan 11 in the HICP index implies that HICP inflation has been artificially dampened – by around 0.5pp – in the first two months of 2011. We expect this distortion to reverse in March, with inflation spiking to the highest level since Sep 08. Given the VAT rate hike introduced in Jul 10 and the higher sensitivity of Spanish inflation to rising oil prices relative to other euro area countries, inflation in Spain is now among the highest in the eurozone.		

Sweden

Mar 28 08:30	Retail Sales, Feb	Forecast: 0.2% MM (SA), 4.0% YY (NSA)	Prior: -0.1% MM (SA), 2.8% YY (NSA)
London Time	February retail sales will probably show the first positive MM change since October 2010. These numbers however are not a very good trend-indicator due to their high month-to-month volatility. Over the year, we expect retail sales to grow 4.0% in February (non seasonally adjusted) somewhat above last year's average of 3.3%.		
Apr 1 07:30	PMI, Mar	Forecast: 60.5	Prior: 60.9
London Time	The Swedish PMI is expected to stay above its long-term average level (55) in March, even if it falls back slightly from the February reading.		

Norway

Mar 31 09:00	Credit Indicator (C2), Feb	Forecast: 6.2% YY	Prior: 6.1% YY
London Time	We expect the measure of general public gross domestic debt, C2, to increase by 6.2% over the year in February. In the latest Bank Lending Survey banks reported that they expect household credit demand to be pretty much unchanged in 1Q this year – we however think that public debt will continue to rise at the beginning of 2011.		
Apr 1 08:00	Registered Unemployment Rate, Mar	Forecast: 3.0%	Prior: 3.0%
London Time	The registered unemployment rate is expected to remain unchanged in March. However, in the 2Q of this year we expect unemployment to continue the downward trend we saw last year, and we forecast a 2011 average around 2.8% for registered unemployment.		
Apr 1 08:00	PMI (SA), Mar	Forecast: 59.1	Prior: 58.7
London Time	Because of Norway's good growth and continued fall in unemployment the purchasing managers' index should continue in March its positive trend of the past two years. We expect the PMI to reach 59.1 this month, its highest level since October 2007. It should however be noted that the PMI indicator is not much used by Norges Bank due to its short history and some seasonality problems.		

United Kingdom

Mar 29 09:30	GDP, Q4 (3rd Release)	Provisional: -0.6% QQ, 1.5% YY	Prior (Q3): 0.7% QQ, 2.5% YY
London Time	We do not anticipate any further revisions to these data at this stage, although historically GDP growth usually has been revised up rather than down. The split is likely to show that corporate savings fell, while the household savings rate probably was little changed or even rose slightly from 5.0% in 3Q. The data are unlikely to move markets unless revisions are large.		
Mar 29 09:30	Balance of Payments, 4Q	Forecast: £-11.0 Billion	Prior: £-9.6 Billion
London Time	Figures already have been released showing that the UK's deficit on goods and services trade rose to £13.7bn in 4Q from £12.4b in 3Q, reaching a record in absolute terms. We expect that other current account items will not alter this adverse trend, sending the current account deficit wider as well – although not (we expect) above the record deficit of £13.3bn recorded in 4Q-2006. These data are often revised.		
Mar 29 09:30	No. of Mortg. Commitm'ts for Home Purchase, Feb	Forecast: 45,000 MM, -4.5% YY	Prior: 45,723 MM, -4.7% YY
London Time	The number of mortgage approvals for house purchase has fallen in YY terms for every month since April 2010 and will probably remain down YY in the February data. Surveys suggest that housing activity has picked up a little over the last few months, but remains weak.		
Mar 30 09:30	Service Sector Output, Jan	Forecast: +1.4% MM, +1.7% YY	Prior: -1.4% MM, -0.6% YY
London Time	Service sector output fell sharply in December 2010, reflecting the adverse effect of the unusually heavy snow in that month. We expect a symmetric rebound in January as the snow effect unwinds.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, CIRA forecasts

Economic Indicators

Key Economic Indicators (4 April – 8 April 2011)

During The Week		Forecast	Last
09:00	UK: Halifax House Prices, Mar		
Monday 4 April		Forecast	Last
08:00	Spain: Registered Unemployment, Mar	+21K	+68K
09:00	Italy: Deficit and Debt, 4Q		
09:30	UK: Housing Equity Withdrawal, 4Q		
10:00	Euro Area: Industrial Producer Prices, Feb		
Tuesday 5 April		Forecast	Last
09:00	Euro Area: Services and Composite PMIs, Mar Final		
09:30	UK: Services PMI, Mar		
10:00	Euro Area: Retail Sales, Feb		
Wednesday 6 April		Forecast	Last
08:00	Spain: Industrial Production, Feb		
08:15	Switzerland: Consumer Prices, Mar		
09:30	UK: Industrial Production, Feb		
	Manufacturing Output, Feb		
10:00	Euro Area: GDP, 4Q (3 rd Release)		
11:00	Germany: Incoming Orders, Feb		
Thursday 7 April		Forecast	Last
	EU: Informal Meeting of EU-27 Finance Ministers (Budapest, Apr 7-9)		
08:30	Netherlands: Consumer Prices, Mar		
09:00	Norway: Industrial Production, Feb		
11:00	Germany: Industrial Production, Feb		
12:00	UK: MPC Meeting Outcome		
12:45	Euro Area: ECB Meeting Outcome (Press Conference at 13:30)		
Friday 8 April		Forecast	Last
	EU: Informal Meeting of EU-27 Finance Ministers (continued)		
06:45	Switzerland: Unemployment, Mar		
07:00	Germany: Trade Balance, Feb		
07:30	France: Bank of France Business Sentiment, Mar		
08:30	Sweden: Industrial Production, Feb		
08:30	Netherlands: Industrial Production, Feb		
09:30	UK: Producer Prices, Mar		
	Greece: Consumer Prices, Mar		
	Greece: Industrial Production, Feb		

Sources: National statistical offices, central banks and Citi Investment Research and Analysis

Recent Research Publications	Author	Date of Publication
Euro Area		
Euro Area — Sovereign Debt Crisis Update	Jürgen Michels	March 25, 2011
European Economic Forecast Highlights: March 2011	Ann O'Kelly	March 23, 2011
Euro Area Summit: Ticking Some Boxes, But No "Grand Deal"	Jürgen Michels	March 14, 2011
ECB — ECB in "Strong Vigilance" Mode, Two Rate Hikes in 2011 Likely	Jürgen Michels	March 3, 2011
Euro Weekly		
Asymmetric Shocks	Giada Giani	March 18, 2011
The Perilous Bank-Sovereign Relationship	Giada Giani	March 11, 2011
Monetary and Fiscal Tightening Ahead	Jürgen Michels	March 4, 2011
Nordics		
Sweden — Producer Prices for Food on the Rise	Michael Saunders	March 24, 2011
Sweden — Manufacturing Confidence Surprises to the Update	Michael Saunders	March 23, 2011
Norway — Rate on Hold but Higher Rates Ahead	Michael Saunders	March 16, 2011
Norway — Rates on Hold But Higher Path	Michael Saunders	March 10, 2011
Norway — Recovery Remains Strong	Michael Saunders	March 2, 2011
Sweden — GDP Beats Consensus Again	Michael Saunders	March 1, 2011
Switzerland		
Switzerland — SNB On Hold Amidst Uncertainties	Michael Saunders	March 17, 2011
Switzerland — Will the SNB Follow the ECB?	Michael Saunders	March 3, 2011
Switzerland — GDP Outperforms Again	Michael Saunders	March 1, 2011
Global		
Global Economic Outlook And Strategy	Willem Buiter	March 23, 2011
UK		
UK — Sales and MPC Dale Speech	Michael Saunders	March 24, 2011
UK — 2011 Budget	Michael Saunders	March 23, 2011
UK — BoE Minutes and Agents	Michael Saunders	March 23, 2011
UK — Inflation Overshoots Yet Again	Michael Saunders	March 22, 2011
UK — Inflation Expectations Rise Further	Michael Saunders	March 17, 2011
UK — Private Sector Offsets State Cuts	Michael Saunders	March 16, 2011
UK — Stable MPC, Manufacturing Rebounds	Michael Saunders	March 10, 2011
UK — Services PMI Edges Down, Wages Up	Michael Saunders	March 3, 2011
Sterling Weekly		
UK Budget Preview — Making Austerity Less Unpalatable	Michael Saunders	March 18, 2011
Stepping Stones to Tightening	Michael Saunders	March 11, 2011
Pay Attention to Pay	Michael Saunders	March 4, 2011

Source: Citi Investment Research And Analysis

Notes

Notes

Appendix A-1

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