Economics

22 February 2012 │ 80 pages

Global Economic Outlook and Strategy

February 2012

- We are edging our global growth forecasts up slightly this month, and now expect global growth of 2.4% in 2012, versus 2.3% last month, with our 2013 forecast staying at 3.0%. PPP-weighted, we forecast global growth of 3.0% in 2012 (2.9% last month) and 3.5% in 2013 (unchanged). The upward revision is small, but a marked contrast to the repeated downgrades since early 2011. This month, we are raising our growth 2012 forecasts for the euro area, Japan and Mexico. We still expect US growth of about 2% for both 2012 and 2013, while for China our base case is for growth to slow to about 8% YoY in H1, followed by a policy-induced H2 rebound.

- The Greece package — of "voluntary" PSI, second bailout package and extended fiscal austerity — cuts risks of immediate disorderly default and EMU exit. However, we do not believe this package will succeed in its stated aim of returning Greece to a 120% debt/GDP ratio in 2020. We forecast a further prolonged economic depression plus a sizeable shortfall in privatization revenues that (with current plans) would leave the debt/GDP ratio at about 160-170% in 2020, similar to the Troika's "tailored downside scenario". Further debt restructuring is likely. We continue to put the chance of Greek EMU exit in the next year or two at about 50%. Moreover, we expect that economic growth will disappoint this year and subsequently — and deficits will overshoot official targets — also in Portugal, Ireland, Italy and Spain. Greece's sovereign debt rating is likely to be downgraded near term and we expect a series of further downgrades among advanced economies over the next 2-3 years.

- Against that, a wide range of central banks recently have loosened policy through various means. Further monetary and liquidity expansion is likely, especially if downside risks to growth dominate. In particular, we expect the ECB will cut its key policy rate to 0.5% later this year and this, with ample liquidity, probably will push overnight rates close to zero. The UK MPC is likely to expand QE further, while China is likely to make a further series of RRR reductions. Thus, despite concerns over the growth outlook, Citi strategists generally expect risk assets to make further gains.

Figure 1. Currency and Interest Rate Forecasts (End of Period, Unless Specified), as of 22 Feb 2012

	22 Feb 2012	2Q 12 Forecast	3Q 12 Forecast	4Q 12 Forecast	1Q 13 Forecast	2Q 13 Forecast
United States: Federal Funds	0.25	0.25	0.25	0.25	0.25	0.25
10-Yr. Treasuries (Period Ave.)	2.07	2.05	2.20	2.40	2.50	2.65
Euro Area: US$/€	1.33	1.33	1.30	1.27	1.26	1.27
Euro Repo Rate	1.00	0.75	0.50	0.50	0.50	0.50
10-Yr. Bunds (Period Ave.)	1.97	1.60	1.50	1.50	1.50	1.50
Japan: Yen/US$	79	81	80	79	78	78
Call Money	0.10	0.10	0.10	0.10	0.10	010
10-Yr. JGB (Period Ave.)	0.96	0.95	1.00	1.20	1.30	1.40

Source: Citi Investment Research and Analysis

Chief Economist

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

Europe

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

Japan

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

North America

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

Emerging Markets

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

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

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

With thanks to Jan Maguire

Next issue 21 March 2012

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

Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.
Not for distribution in the People's Republic of China, excluding the Hong Kong Special Administrative Region.

Contents

Figure 2. Forecast Highlights and Changes from Last Month

Global	We are edging our global growth forecasts up slightly this month, although major headwinds and pitfalls still lie ahead. Major central banks are likely to maintain a highly accommodative stance and we expect further loosening in Europe.
United States	Growth remains on a modest 2% track supported by pent-up demand, rising employment and accommodative monetary policy. Financial conditions remain vulnerable and some key sectors like housing are lagging the upturn. Extra Fed support in the form of MBS purchases seems likely if growth falls short of official forecasts or inflation prospects slow too much.
Euro Area	We have slightly revised up our GDP forecasts and postponed a bit the expected ECB rate cuts. But, with the ongoing sovereign debt crisis and the increased probability of Greece leaving the euro area, the outlook remains very uncertain. If Greece leaves, we expect that governments and the ECB will implement measures to prevent a further break-up of the euro area.
China	We no longer expect a hike in the official policy rate in 2012 as signs of economic weakness are increasing and falling inflation will ease the problem of negative real deposit rate. Growth may fall to 8% YoY or lower in Q1, and the recent RRR cut confirms policy easing to limit downside risks. We expect at least another 3 RRR cuts, more proactive fiscal policy and relaxation of property tightening measures to help revive the economy.
Japan	We slightly revised up our growth forecast for 2012 this time, reflecting signs of the modest improvement in external environment. Most notably, the yen depreciated against USD moderately in the wake of the BoJ's new easing action this month. If renewed upward pressure on the yen should emerge, the BoJ is likely to take an additional easing measure.
United Kingdom	The economy probably is just avoiding recession, but growth is likely to be around zero in coming quarters. We continue to expect the MPC will expand QE markedly further, although we have scaled down our forecast for the total QE programme to £500bn from £600bn.
Canada	Markets have abandoned expectations of further monetary policy easing amid better-than-expected output in Canada and the US, and above-target domestic inflation. Nonetheless, the BoC likely will still keep rates extraordinarily low to lean against headwinds.
Australia	Having lowered our economic growth forecasts last month, the outlook has steadied and we expect growth at close to trend growth in 2012. Consequently, our conviction in another RBA rate cut has diminished.
Emerging Asia (ex China)	Recent economic data have softened markedly, especially on the export/manufacturing side, although we think that is partly exaggerated by the Chinese New Year effect. Meanwhile, inflation continues to generally moderate, exacerbated by the base effect. Some central banks are increasingly likely to cut rates, but others are likely to stand pat as inflation expectations remain sticky,
CEEMEA	A Turkish rate cut and dovish rhetoric by the Hungarian National Bank suggest that there is still concern within CEE about the risks associated with weak global demand. We think more dovishness is warranted on the part of Poland, where our view is that there is too much confidence about 2012 GDP growth among analysts and policymakers. Russia's election will dominate the regional calendar early next month.
Latin America	With looser monetary policy in advanced economies, LatAm central banks are increasingly concerned about another possible edition of "currency wars," but their responses are likely to vary. In Brazil, Bacen appears committed to keep cutting Selic this year (we now expect another 125 bps) while in Colombia, Banrep surprised markets in January by increasing the O/N rate by 25 bps and we expect two additional 25bp cuts. Meanwhile, the central banks of Chile, Peru, and Mexico are temporarily on hold. Chile and Peru are more likely to cut than to raise rates, while Mexico is more likely to hike.

Source: Citi Investment Research and Analysis

Figure 3. Global — Summary of Views of Citi's Market Strategists

	Equities	G10 Rates	Credit	Securitized Products	FX	Commodities	Global Macro Strategy
Overall View	Equity markets still cheap even after the 20% rally	QE and cheap money reinforce trading ranges. Curves continue to flatten, volatility to fall	Long but trade against range or use market dislocations	Short, high-quality sectors optimise defensive positioning. Off-the-run sectors offer upside	Weaker G4 vs. EM/growth/carry FX	A more challenging 1H 12 with potential for sharper rebound in 2H 12	Bullish risk assets medium term
Most-Favoured Region/Sector	EM, Japan, UK, Asia Pac ex Japan/ IT, Financials, Cons. Staples	EUR 5yr and GBP long end	Low-beta core non-fins and senior SIFI; selectively edge down in quality	US CMBS senior tranches	Asia EM, BRL	Precious Metals	Metals, EM FX, equities and rates
Least-Favoured Region/Sector	US/ Healthcare, Utilities, Cons. Disc	EMU non-AAA	French corporates and periphery sub-debt	Spanish and Irish RMBS	G4	Thermal coal Base metals	Core FI
Key Risks	Escalation of the EMU crisis and global contagion, sharply higher core government bond yields	Credible steps towards ending the EMU crisis could cause large reversal	Sovereign crisis; bank runs; global slowdown	Regulation	Deterioration in risk appetite	EMU contagion, further US dollar strength China hard landing	EMU breakup, China growth, US fiscal, MENA

Source: Citi Investment Research and Analysis

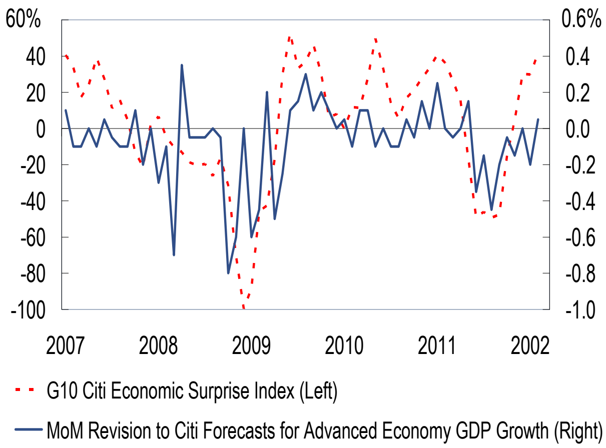
Overview — Slightly Less Negative on Growth, But Pitfalls Persist

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

We are raising our global growth forecasts slightly this month after a series of downgrades recently

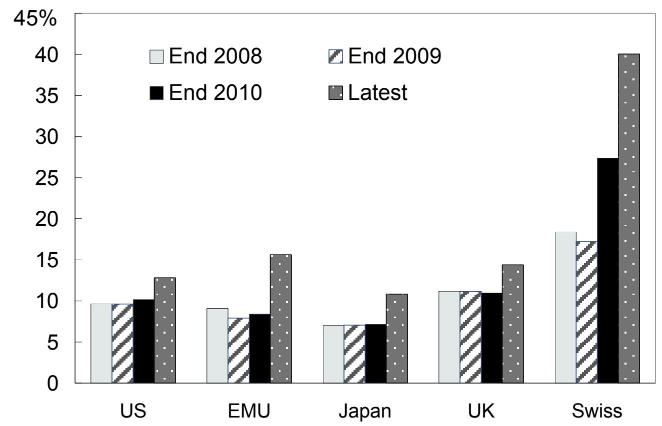
We are edging our global growth forecasts up slightly this month, and now expect global growth of 2.4% this year, versus 2.3% last month, with our 2013 forecast staying at 3.0%. PPP-weighted, our forecasts are for growth of 3.0% in 2012 (2.9% last month) and 3.5% in 2013 (same as last month). The upward revision is small, but this it is the first upward revision since Jan-11 and a marked contrast to the relentless forecast downgrades seen since early 2011. This month, we are lifting growth forecasts for the euro area, Japan and Mexico, partly reflecting the better tone of recent data. Our growth forecasts for the US and China are little changed. We continue to expect US growth of about 2% for both this year and 2013, with China's growth at 8-9% this year.

Figure 4. Advanced Economies — Citi G10 Economic Surprise Index and Revisions to Citi Economic Forecasts, 2007-12



Source: Citi Investment Research and Analysis

Figure 5. Selected Countries —- Change in Ratio of Central Bank Assets to GDP Since Mid-2007, 2008-12



Sources: Datastream and Citi Investment Research and Analysis

The Citi ESIs highlight the recent improvement in economic data…

The better tone of recent data is evident in the marked turnaround in the Citi Economic Surprise Indices. The aggregate G10 ESI in recent days is the highest since early 2011, while the US ESI recently has been the highest since 2003. The EMU ESI also has turned positive after a long period of weakness. Historically, there has been a fairly close overlap between the Citi ESI and revisions to Citi economic forecasts. However, while we are edging our global GDP forecast up, we are not inclined at this stage to lift forecasts as much as the ESI would imply.

…but major economies still face powerful headwinds and various pitfalls

First, improvements in some European data may partly reflect temporary factors such as the relatively mild weather of December-January. Second, powerful headwinds remain from private sector deleveraging and, especially in Europe, fiscal tightening plus bank deleveraging. The ECB survey reports a further tightening in bank lending standards. The fiscal stance (structural primary balance) will tighten by nearly 2% of GDP in the euro area this year, and by more than 1% of GDP in the UK. Third, major economies face a variety of pitfalls.

The recent package probably will not be enough to return Greece to fiscal sustainability…

- At the time of writing, the Greece package — of "voluntary" PSI, second bailout package and extended fiscal austerity — has just been agreed, hence cutting risks of immediate disorderly default and EMU exit. However, we do not believe this package will succeed in its stated aim of returning Greece to a 120% debt/GDP ratio in 2020. Greece's economy has already suffered one of the worst declines among industrial country in recent decades, with real GDP falling 15.7% over the last three years. We anticipate a further prolonged economic depression plus a sizeable shortfall in privatization revenues that (with current plans) would leave the debt/GDP ratio at about 160-170% in 2020. This is similar to the Troika's "tailored downside scenario". Such a path implies that further debt restructuring is likely. We continue to put the chance of Greek EMU exit in the next year or two at about 50%[1].

…and fiscal slippage is likely in Portugal, Ireland, Italy and Spain

- Moreover, we expect that economic growth will disappoint this year and subsequently — and deficits overshoot official targets — in Portugal, Ireland, Italy and Spain. Recent surveys and money data highlight the ongoing deterioration in prospects for the periphery countries. We believe sizeable sovereign debt restructuring is likely in Portugal over the next 12-18 months, and Ireland's fiscal path probably also is considerably worse than official forecasts, in our view.

China's economy is clearly slowing markedly

- In China, the recent string of weak data points to weakening external and domestic demand. Our base case is that growth will slow to about 8% YoY in H1, followed by a policy-induced rebound in H2. The recent RRR cut is a step in that direction, but there is a risk that policies may lag behind and the economy may slow more abruptly than expected near term.

Key elections may magnify policy uncertainties…

- 2012 is a year of major political transition, with major elections and/or leadership changes in a range of countries, including the US, China, Russia, France, Greece and Egypt. In particular, the fiscal compact and Greek bailout could be destabilised if Socialist Candidate Hollande wins in France and the hard-left win in Greece. Moreover, there are considerable uncertainties about post-2012 fiscal policies in the US, with expiring stimulus measures, the likelihood of a new debt ceiling debate and the end-2012 elections.

…while oil prices pose a potential wild card that could tilt firms back to caution

- Oil prices have been creeping up, partly on recovery hopes but also reflecting Iran/Middle East worries. So far, prices have not broken out of the $95-$125/barrel range (Brent) seen since early 2011. But, if Mideast tensions trigger a spike up to, say, $150/barrel — even temporarily — then firms and households across advanced economies may again shift back to a mood of caution.

Figure 6. Selected Countries — Industrial Production Forecasts (Pct.), 2011-13F

	2011F	2012F	2013F
World	**3.7%**	**2.6%**	**3.5%**
United States	4.1	3.6	3.2
Japan	-3.5	2.8	2.4
Euro Area	3.6	-2.8	-0.1
United Kingdom	-1.0	-0.1	1.3
Canada	2.8	-0.6	0.7
China	13.9	11.6	12.2
India	3.9	5.0	6.1
Korea	6.9	6.2	8.7
Brazil	0.8	1.8	3.2

Source: Citi Investment Research and Analysis

The evolution of these and other risks is, inevitably, uncertain. But, we suspect that at least some of these adverse risks are likely to materialize. Against that, a wide range of central banks recently have loosened policy through various means, with the Fed talking rates 'low for longer', rate cuts and massive liquidity injections from the ECB, RRR easing in China, QE from the UK, rate cuts from Norway and Sweden, plus colossal monetary base expansion in Switzerland. No single measure can summarize the combined effect of such widespread easing, but the effects are evident in the rapid expansion of central bank balance sheets and ultra-low level of market interest rates. Further monetary and liquidity expansion is likely, especially if downside risks to growth dominate. In particular, we expect the ECB will cut its key policy rate to 0.5% later this year and this, with ample liquidity, probably will push overnight rates close to zero. The UK MPC is likely to expand QE further, while China is likely to make a further series of RRR reductions. This monetary loosening is likely to help lift risk assets, although we believe investors should be cautious over the extent to which it can significantly affect economic growth prospects given the headwinds described above.

If Greece leaves EMU, growth downside and liquidity upside would both probably increase

Our forecasts do not include Greek exit but, if it happens, the result would probably be a near-term intensification of strains in EMU markets, deterioration in the growth outlook, a weaker euro, coupled with greater liquidity support for banks and strained sovereigns from the ECB (and extra support for banks from other central banks).

[1] See "Rising Risks of Greek EMU Exit", Willem Buiter and Ebrahim Rahbari, 9 February 2012, Citi.

Is The Eurozone At Risk of Turning Into The Rouble Zone?[2]

Willem Buiter
(44 20) 7986 5944
willem.buiter@citi.com

Ebrahim Rahbari
(44 20) 7986 6522
ebrahim.rahbari@citi.com

On February 9, 2012, the ECB announced "specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations" for seven EA NCBs

We consider this to be a dangerous and potentially disastrous decision as it implies either a loss of central control over the Eurosystem balance sheet or a further Balkanisation of the EA into soft and hard member states, with national central banks subject to different degrees of default risk

On February 9, 2012, the ECB's Governing Council (GC) approved, for seven national central banks (NCBs) (of Ireland, Spain, France, Italy, Cyprus, Austria and Portugal) *"… specific national eligibility criteria and risk control measures for the temporary acceptance of additional credit claims as collateral in Eurosystem credit operations"*.[3] NCBs can choose the eligibility criteria freely, subject to minimum requirements set by the ECB GC.

We consider this to be a dangerous and potentially disastrous decision. Either, this decision could plausibly imply a loss of central control over the Euro Area's Monetary, Credit and Liquidity (MCL) policy. The amounts of ECB credit and liquidity provided are demand-determined once the eligibility criteria for collateral are set. Delegating the setting of these criteria to the NCBs therefore opens up the possibility of uncontrolled, and therefore accelerated, balance sheet growth for the Eurosystem, if the NCBs in the soft euro area (EA) member states are not restrained by the absence of Eurosystem-wide loss sharing associated with the new, more relaxed national collateral standards. Such a failure to respond 'responsibly' to the 'you break it, you own it' loss sharing arrangements for the new NCB collateral regimes may be individually rational if both the NCB in question and the sovereign backing it are close to insolvency.

Alternatively, if the absence of a Eurosystem-wide loss pooling regime is recognized (and enforced), the 17 Eurosystem NCBs could become counterparties with very different degrees of default risk. Normally, central bank solvency would not be threatened by increased exposure to high-risk assets, as long as that central bank's liabilities are denominated in domestic currency — as is the case for the EA NCBs. A central bank's ability to issue monetary liabilities (to use current seigniorage) or its capacity to borrow by issuing non-monetary liabilities (effectively secured against its future ability to issue seigniorage) should permit it to meet any payment obligations. This is not the case, however, if the ECB GC does succeed in putting a cap on the ability of the national NCBs to increase their balance sheet size despite the widening of the collateral eligibility, and if that cap is tight enough to prevent an individual NCB from saving itself from default through the use of seigniorage, but not tight enough to stop it from getting into trouble in the first place. Such a combination of a loosening of some NCBs' collateral standards, the absence of loss pooling and effective constraints on these NCBs' ability to use seigniorage would pose a different danger from that of 'Roublezoneification': it implies further differentiation between NCBs and their counterparties along national lines and the segmentation of the Eurosystem into NCBs characterized by possibly significant differences in default risk.

The decision of February 9 introduces a relaxation of collateral requirements in only part of the EA — the 'soft' part, consisting of 5 of the 6 EA periphery countries (only Greece is missing) and 2 of the 3 'soft core' EA member states (only Belgium is missing). This selective relaxation creates an uneven playing field for central banks and their counterparties that could easily be destabilizing. And it could further accelerate the bifurcation of the EA into a soft EA and a hard EA.

If it is indeed true that there will be no loss pooling for these additional credit claims (as ECB President Draghi suggested in the Q&A of the press conference, although no formal decision of the ECB's Governing Council to that effect has been

[2] This piece is based on the publication "Is the Eurozone at Risk of turning into the Rouble Zone? ", Willem Buiter and Ebrahim Rahmani, 13 February 2012, Citi.

[3] ECB Press Release, 9 February 2012, http://www.ecb.int/press/pr/date/2012/html/pr120209_2.en.html. The details of the national eligibility criteria are communicated by the NCBs on their websites.

communicated), the solvency of the NCBs in fiscally weak EA countries would be called into question even more. And counterparties in the euro area and elsewhere would start to differentiate more strongly between different Eurosystem NCBs. That would be a further nail in the coffin of a single money, credit and liquidity policy (MCL policy) for the EA and a further step towards the re-emergence of national MCL policies and, eventually, national currencies.

The Euro Area's Single MCL Policy

EA monetary, credit and liquidity policy is supposed to have three key features:

- **I) a single, centrally decided interest rate and collateral policy**
- **II) decentralised operational implementation by NCBs**
- **III) profit and loss sharing between all EA NCBs for all gains and losses arising from monetary policy operations**

EA monetary policy, credit policy and liquidity policy (MCL policy) is supposed to have three key features — features necessary for there to be a single Eurozone-wide monetary, credit and liquidity policy, rather than 17 national policies.

First, interest rate policy, collateral policy (including the valuation of illiquid collateral and the terms and conditions applied to all collateralised lending and to open market operations generally), and liquidity policy are decided centrally by the 23-member Governing Council of the ECB — the 17 NCB Governors and the 6 members of the ECB Executive Board. Most decisions are taken on a one person-one vote basis, with the Governor of the Central Bank of Malta having the same weight as the President of the Bundesbank. Decisions having to do with ECB and NCB capital and with certain other profit-and-loss sharing matters between the ECB and the NCBs are decided by an equity-share-weighted voting rule, under which the Bundesbank has 27.06% of the vote and the Central Bank of Malta 0.09%.

Second, the operational implementation of the centrally decided MCL policy is left to the NCBs, but according to a common template, including, since January 2007, a single Eurosystem-wide list of eligible collateral.

Third, ECB/NCB losses and profits made in the implementation of the common MCL policy are shared among the NCBs in proportion to their ECB capital shares.

Precursors to the current nation-specific regime

Before 2007, the Eurosystem distinguished between 'Tier 1' and 'Tier 2' collateral. Eligibility criteria for Tier 2 collateral were set by NCBs.

However, allowing nation-specific differentiation of collateral requirements is neither new nor unprecedented. Inevitably, the EA started out with very different sets of eligible collateral in the constituent nation states, and much of this initial heterogeneity was grandfathered. From the creation of EMU until 2007, there were two tiers of eligible collateral. 'Tier one' collateral consisted of marketable debt instruments fulfilling uniform euro area-wide eligibility criteria specified by the ECB. 'Tier two' collateral consisted of additional assets, marketable and non-marketable, which are of particular importance to national financial markets and banking systems and for which eligibility criteria are established by the NCBs, subject to minimum eligibility criteria established by the ECB. Note that there was no presumption pre-2007 that the original 'tier two' collateral was of lower quality than tier one collateral. In contrast, the new-fangled national tier-two collateral is likely to be inferior to the other collateral used in Eurosystem facilities. Although the ECB has not communicated publicly that exposure to tier two collateral was not pooled across the Eurosystem but is instead for the accounts of the individual NCBs only, conversations with Eurosystem officials have convinced us that there is indeed no loss pooling the new 'for tier two' collateral exposure.

Even after 2007 when the ECB introduced a 'Single List' for eligible collateral, the details of the (now) 17 national collateral regimes always differed. Credit claims (loans etc.) were always accepted as a collateral class, and the NCBs were responsible for the procedures to approve them at the national level, subject to the approval of the ECB. To our knowledge, there have been no exceptions to the general rule of profit- and loss-sharing for Eurosystem exposure arising from monetary policy operations, be it against marketable or non-marketable collateral — with the explicit exception, discussed below, of the ELAs. What is surprising is how little progress has been made in evolving common intermediation principles and practices in the EA since its inception in 1999. And this latest decision represents a significant step backwards from a common monetary, credit and liquidity policy in the euro area (EA) and from an integrated EA banking sector and financial market.

Emergency liquidity assistance (ELA) may be granted by individual NCBs on terms different from regular Eurosystem operations, but is subject to a number of constraints set by the ECB Governing Council

The new collateral regime is not the only deviation from the Eurosystem's purported Single MCL policy. Emergency Liquidity Assistance (ELA) facilities can be created by NCBs when the counterparty banks in their jurisdictions can no longer fund themselves at the regular facilities of the Eurosystem, either because their creditworthiness has deteriorated too much or because the quality of the collateral they offer is too poor to be acceptable at the Eurosystem. The ELA facilities can, subject to a number of provisos, take collateral not acceptable at the Eurosystem from counterparties that are not sufficiently creditworthy to access the Eurosystem.

Just as for the new 'tier two' collateral, ELA exposure is exposure of the NCB in question, not exposure of the Eurosystem

In common with the new 'tier two' nation-specific collateral regime, although the liabilities of the ELA facility are Eurosystem liabilities (base money or non-monetary liabilities), the exposure of the ELA facility is not an exposure of the Eurosystem. Instead it is an exposure just of the NCB in question which is supposed to be guaranteed in full by its sovereign. This protects the Eurosystem against losses that may be incurred by the ELA facility, as long as the joint loss-absorption capacity of the NCB and its sovereign are adequate. When the NCB in question has little or no conventional loss absorption capacity (capital plus reserves plus any capital gains it may be able to realise from its revaluation account) the fact that its credit creation capacity is controlled and capped by the Governing Council (GC) of the ECB means that it cannot use seigniorage (the profits from the issuance of central bank money [base money]) to meet its commitments.[4] The guarantee of the sovereign is not worth much if the sovereign itself is insolvent or at high risk of insolvency, as is the case, for instance, with Greece, Portugal and Ireland, in our view.[5]

Unlike for Eurosystem funding against tier two collateral, the ECB has to approve the limit on the total size of the ELA facility. ELA terms and conditions are also typically more onerous than for usual Eurosystem operations

But there are two differences between the new 'tier two' collateral and ELA. First, the ECB GC determines the limit on the total size of the ELA facility, while it does not have to approve the size of new national 'tier two' exposure approved on Feb 9. It is true that there may be a limit to the amount of qualifying private loans that a national financial system can create to be repoed for liquidity with its NCB, but history shows us astonishing examples of eligible collateral leveraging even when the NCB was not actively (or even passively) co-operating, e.g. in the case of Iceland.[6] Second, the terms and conditions (interest rates, valuation, haircuts, etc.) set by the ELA facility typically are more onerous than those available at the regular credit facilities of the Eurosystem (and are also subject to ECB GC approval). In contrast, funding against 'tier two' collateral is obtained at the usual Eurosystem conditions and includes the option of participating in the upcoming 3-year LTRO.

[4] See Buiter, Willem H. (2010), "Games of chicken between the monetary and fiscal authority: Who will control the deep pockets of the central bank?" (long version), Citi Global Economics View , 21 Jul. 2010 and Buiter, Willem H. (2012), "The Role of Central Banks in Financial Stability: How Has it Changed?", CEPR Discussion Paper No. 8780, January 2012.

[5] In the case of tier two collateral exposure, no explicit government guarantee may exist, but at least for solvent EA sovereigns an implicit sovereign guarantee is likely where an explicit one may be missing. For insolvent EA sovereigns, neither an explicit nor an implicit guarantee would matter.

[6] See Sibert, Anne C. (2010a), "Love Letters from Iceland: Accountability of the Eurosystem," VoxEU.org, 18 May 2010 and Sibert, Anne C. (2010b), "Accountability and the ECB," Paper for the Central Bank of Austria's 38th Economics Conference, "Central Banking after the Crisis: Responsibilities, Strategies, Instruments," Vienna, 31 May 2010.

Details on ELA terms, procedures and total size are in general not publicly available. Based on the available data, the NCBs in Belgium, Cyprus, Germany, Greece and Ireland have used ELA

The way in which NCBs account for the ELA activities is not standardised. From the published data it is difficult to extract a complete picture. As far as we can tell, only 5 EA countries have used ELA facilities thus far: Ireland, Germany, Belgium, Greece and Cyprus. Germany only used its ELA facility during 2008, when the financial crisis first struck. Irish use of ELA peaked in February 2011 at €68.5 bn and amounted to €45.5bn at end-January 2012. Greece's use of ELA has increased rapidly since July 2011 and stood at €56.2bn at the end of November. Total ELA use in that month (the latest for which we have data) was €123.3bn. Cyprus' use of ELA was an estimated €3.5bn at end-2011.

Why did the ECB re-introduce 'tier two' collateral?

The new collateral regime was put in place to widen collateral eligibility while sharpening incentives for NCBs to be responsible in granting Eurosystem access

So why were nation-specific collateral rules reintroduced? The collateral eligibility requirements for Eurosystem operations were widened (i.e. lowered) in order to alleviate funding pressures for banks that have not only become unable to access private funding markets, but were also running short of collateral that satisfies the conventional, uniform Eurosystem collateral eligibility requirements. Of these, small and medium-sized banks that lend mostly to SMEs and households are of particular concern. These banks have in the past tended to borrow through the inter-bank market from larger banks which in turn used the Eurosystem. The extent, terms and procedures of such interbank lending activity varied by EA country and it was particularly common in Italy. Such interbank lending activity has shrunk considerably, but the alternative of seeking Eurosystem financing was also out of bounds for small banks, as the collateral they could offer mostly did not satisfy the Eurosystem's requirements before the recent widening.

As Draghi pointed out, the widening and relaxation of collateral requirements implied that the Eurosystem is exposed to more (credit) risk. Since these loans are also very hard to value for outsiders, the Eurosystem decided to sharpen the incentives for NCBs to be responsible in their decisions to accept such credit claims as collateral by not pooling any resulting losses.

How much exposure are we talking about?

According to ECB President Draghi around €600-700bn of additional collateral would become available as a result of the new collateral rules which would translate into €200bn of extra Eurosystem funding

In the Press Conference and Q&A following the ECB GC meeting of February 9, 2012, Mr. Draghi mentioned that around €600bn to €700bn of loans would be outstanding in the seven member states mentioned above that would satisfy the new eligibility requirements. He also indicated that the new eligible credit claims would be subject to valuation haircuts of around 2/3. The valuation to which this haircut would be applied was not specified. Because individual loans are almost impossible to value by third parties, for loans that are current the valuation will likely be at par. This suggests that banks might be able to obtain around €200bn at the February 29 3-Y LTRO amid the widening of the eligible collateral pool.

Figure 7 presents the capital and reserves of all NCBs. Two components of the conventional loss-absorption capacity of the NCBs are omitted here: revaluation accounts (unrealised gains on gold, foreign exchange holdings and other investments) and provisions. In addition to the capital and reserves of the NCB, the solvency of its sovereign needs to be taken into account. Sovereigns explicitly guarantee ELA exposures of their NCBs. For Eurosystem funding against the new, post-February 8, tier two collateral, we are not aware that such an explicit guarantee exists, but a solvent EA sovereign would be likely to recapitalise its NCB if the NCB's loss should exceed the NCB's conventional loss absorption capacity. The true loss absorption capacity of the Eurosystem (the ECB and the 17 constituent NCBs) includes the net present value (NPV) of seigniorage and is much larger — we estimate it at around €3.2trn for the Eurosystem as a whole, of which total conventional loss absorption capacity accounts for only about €400bn. However, the NPV of future seigniorage is not something any individual NCB can lay claim to. It only becomes available to an individual NCB if either the GC of the ECB permits it to borrow against it, or if there is a breakdown of central control over aggregate seigniorage of the Eurosystem.

The Bank of Greece (BoG) was notably absent from the list of NCBs that have started to accept credit claims according to nation-specific requirements. We have not been able to verify whether the BoG had applied to use such a procedure and had its request denied by the Governing Council, or whether it was discouraged from applying. This shows that in the case of the BoG the ECB GC recognised that the incentive to 'gamble for resurrection' could easily overcome the incentives for prudent lending if the NCB in question is already insolvent, and that any explicit or implicit guarantee from the Greek sovereign would be of little value.

Figure 7. Eurosystem NCBs — Capital and Reserves as of end-2010 (EUR Bn)

Country	Capital and Reserves
Austria	4.17
Belgium	3.54
Cyprus	0.12
Finland	2.18
France	28.61
Germany	5.00
Greece	0.82
Ireland	1.72
Italy	21.15
Luxembourg	0.18
Malta	0.27
Netherlands	7.24
Portugal	1.38
Slovakia	0.36
Slovenia	0.80
Spain	1.95
Total	**79.48**

Note: Exclude provisions and revaluation accounts
Sources: NCB Annual Reports and Citi Investment Research and Analysis

Parallels to the Rouble Zone and Remedies

Following the collapse of the Soviet Union at the end of 1991, its monetary arrangements survived for a while. During the first half of 1992 all 15 independent successor states shared a monetary union using the rouble (the Rouble Zone). The minimal political cohesion and fiscal infrastructure to support a multi-country Rouble Zone was absent, however. In addition, there was a fatal design flaw in the monetary arrangements themselves. The Central Bank of Russia (CBR) took over the State Bank of the USSR (Gosbank) and remained the only NCB in the former Soviet Union to have the right to issue rouble currency (notes and coins). However, each of the 14 NCBs in the other former Soviet Republics (formerly the main branches of Gosbank in these Republics) could create central bank credit at will, without any central (or Russian) control over national and aggregate credit creation. This invitation to free-ride on the other members of the monetary union led to accelerating inflation and eventually hyperinflation in the former Soviet Republics. One by one, the non-Russian Rouble Zone member states introduced national currencies. At the end of 1993, the Rouble Zone was de facto dead. This rather stark historical example should serve as a useful warning for Eurosystem officials.

So what is to be done? The objective should be to restore adherence to the rules of the game of a monetary union, and then to choose the right degree of Eurozone-wide monetary, credit and liquidity accommodation to minimize the impact of the credit crunch on the EA as a whole. With that in mind, we propose the following:

In the Rouble Zone, allowing the national central banks freedom to create central bank credit at will precipitated hyperinflation

First, end the ELA facilities or make their establishment mandatory for all NCBs. If the second option (universal ELA facilities) is adopted, ensure that uniform standards and criteria are employed in their operation.

Second, enforce uniform collateral standards for all Eurosystem NCBs. Our own preference is both for lower interest rates (a refi rate at zero by mid-year would be desirable) and for an EA-wide relaxation of collateral standards with continued full loss pooling by the NCBs, but we do insist that collateral standards should be the same all through the Eurosystem. This will require long-overdue fundamental changes in the intermediation procedures of some national banking systems.

The current crisis has made it clear that 'banking union' involving a limited amount of fiscal union is a prerequisite for survival of the EMU. Banking union means: (1) a single EA-wide regulator-supervisor with no independent role for national regulators and supervisors of banks and other sifis; (2) a single EA-wide resolution authority for banks and other sifis; (3) a single EA-wide recapitalisation authority, jointly and severally guaranteed by the EA member states and (4) a single EA-wide deposit insurance regime and fund. A nice symbolic touch would be to require every EA bank or other sifi to be incorporated under EU statute (as a Societas Europaea).

We propose the following to remedy the undesirable status quo of Eurosystem collateral operations and procedures:

- **i) either end ELA or make their establishment mandatory for all NCBs, with uniform standards and criteria**
- **ii) enforce uniform collateral standards for all Eurosystem NCBs**
- **iii) Insist on profit and loss sharing for all NCB monetary, credit and liquidity policy activities**
- **iv) Transfer all NCB tasks other than those necessary for the common monetary, credit and liquidity policy to other agencies legally separate from the NCBs**

Only with full banking union will the survival of banks be decoupled from the solvency of national sovereigns with very different degrees of solvency. Only with full banking union can there be safe passporting of banking licences throughout the EA. With free entry into the entire EA banking market, the standardisation of collateral standards and intermediation practices will no doubt be accelerated. Care must be taken that a standardisation of collateral requirements and the eventual emergence of a uniform collateral list does not precipitate a credit crunch in some member states, but that ought not to be beyond the ken of the EA monetary and financial authorities.

Third, insist that all profits and losses incurred in the implementation of the common monetary, credit and liquidity policy be fully pooled and shared.

Fourth, insist that NCBs in the EA perform no other tasks than those necessary for the implementation of the common monetary, credit and liquidity policy of the ECB. If currently an NCB fulfils a regulatory, supervisory or national debt management function, transfer these to other agencies, legally separate from the NCB. Do not permit an NCB to act as an agent for its sovereign or for any other agency of the state. Responsibilities in bank supervision and regulation should preferably be transferred to an EA-wide regulator-supervisor as already noted.

If it comes to a Treaty revision, repeal Article 14.4 and the second paragraph of Article 32.4 which allow deviations from the Single MCL policy. Even without a Treaty revision, uniform terms and conditions for central bank credit throughout the EA can be achieved easily by permitting any bank that is an eligible counterparty of any NCB in the Eurosystem to be a counterparty for repos and other collateralised loans with any other NCB in the Eurosystem. The current convention tying Dutch banks to the Dutch central bank, Greek banks to the Greek central bank etc. (unless they have a subsidiary in some other EA member state) aids and abets the continued Balkanisation of MCL policy throughout the EA.

Permitting any eligible counterparty of the Eurosystem to access the Eurosystem at any point rather than only through the NCB in its location of incorporation would aid preventing the fragmentation of MCL policy in the EA

A Treaty revision that transfers ECB equity from the NCBs to the National Treasuries would be desirable

Ultimately, a Treaty revision that ends the anomaly of the Eurosystem NCBs being the shareholders of the ECB is necessary. The equity should be transferred to the national Treasuries or Ministries of Finance that are, even today, the effective beneficial owners of the ECB. Going one step further and turning the NCBs into the national branches of the ECB, by taking away the legal personalities of the NCBs, would be an important symbolic step emphasizing that the Eurosystem is not a confederation of national central banks but an arrangement for the decentralised but uniform implementation of a single monetary, liquidity and credit policy for the entire EA. That way, the Rouble Zone will never reach Frankfurt.

No doubt many of these changes will take at least 3 to 5 years to achieve. They are therefore unlikely to help much in the current crisis. They will, however, reduce the likelihood of and mitigate the severity of future crises. By contrast, the February 9 decision brings the EA much closer to the position of the Rouble Zone following the collapse of the Soviet Union.

Figure 8. Selected Countries — Economic Forecast Overview (Percent), 2011-2016F

	GDP Growth						CPI Inflation						Short-Term Interest Rates					
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
Global	**3.0**	**2.4**	**3.0**	**3.5**	**3.8**	**4.0**	**3.6**	**3.0**	**2.9**	**2.9**	**3.0**	**2.9**						
Based on PPP weights	*3.7*	*3.0*	*3.5*	*3.9*	*4.1*	*4.3*	*4.2*	*3.5*	*3.3*	*3.3*	*3.3*	*3.2*						
Industrial Countries	**1.3**	**0.7**	**1.1**	**1.9**	**2.4**	**2.7**	**2.3**	**1.8**	**1.4**	**1.4**	**1.5**	**1.5**						
United States	**1.7**	**2.0**	**1.8**	**2.8**	**3.5**	**4.0**	**2.4**	**2.2**	**1.8**	**2.1**	**2.2**	**2.2**	**0.25**	**0.25**	**0.25**	**0.40**	**1.15**	**2.10**
Japan	**-0.9**	**1.2**	**1.4**	**1.5**	**1.5**	**1.2**	**-0.3**	**-0.4**	**-0.1**	**0.1**	**0.3**	**0.5**	**0.10**	**0.10**	**0.10**	**0.13**	**0.48**	**0.75**
Euro Area	**1.5**	**-1.3**	**-0.3**	**0.7**	**1.2**	**1.6**	**2.7**	**2.3**	**1.4**	**0.9**	**0.8**	**0.8**	**1.19**	**0.69**	**0.50**	**0.50**	**0.50**	**0.75**
Canada	2.4	1.9	2.3	2.7	3.2	3.5	2.9	2.0	1.8	2.0	2.0	2.0	1.00	1.00	1.63	2.19	2.50	3.00
Australia	1.9	3.4	3.8	4.3	3.8	3.6	3.4	2.2	3.1	2.9	2.7	2.5	4.63	4.06	4.56	5.00	5.25	5.75
New Zealand	1.4	2.6	2.6	3.0	3.2	3.4	4.1	2.1	2.3	2.6	2.9	2.8	2.50	2.50	3.75	4.75	5.50	5.50
Germany	3.1	0.6	1.5	1.6	1.8	1.7	2.3	1.8	2.3	2.3	1.9	1.9						
France	1.7	-0.3	0.5	1.2	1.5	2.0	2.3	2.3	1.6	1.3	1.8	1.5						
Italy	0.4	-2.4	-0.5	-0.4	0.6	1.5	2.9	3.4	2.1	0.2	0.1	0.9						
Spain	0.7	-2.8	-1.6	0.6	1.0	1.6	3.1	2.3	1.7	0.8	0.7	1.2						
Greece	-7.0	-8.0	-2.6	-1.7	-0.1	1.0	3.1	1.2	-0.4	-0.5	-0.4	0.1						
Ireland	0.8	-0.7	0.3	1.9	2.2	2.5	-0.8	0.2	0.0	0.3	0.5	0.5						
Portugal	-1.5	-5.5	-3.4	-0.4	1.3	1.8	3.6	3.0	1.9	0.3	-0.1	0.0						
Netherlands	1.3	-1.2	0.4	1.2	1.5	1.6	2.3	2.3	1.8	1.6	1.9	1.8						
Belgium	1.9	-0.5	0.8	1.7	2.1	1.8	3.5	2.8	1.7	1.9	2.3	2.3						
Denmark	1.0	0.9	1.2	1.8	1.7	1.9	2.7	2.0	1.4	1.6	1.8	2.0	1.30	0.29	0.30	0.55	0.60	1.00
Norway	2.7	2.5	2.9	2.7	2.7	2.9	1.3	1.9	2.2	2.2	2.5	2.5	2.10	1.56	1.50	1.50	2.00	2.50
Sweden	4.5	0.5	1.9	2.6	2.7	2.7	2.9	1.2	1.9	1.9	2.1	2.0	1.80	1.13	1.00	1.00	1.50	2.00
Switzerland	1.8	-0.2	-0.1	0.4	0.5	0.5	0.2	-1.2	-1.3	-0.5	1.0	1.0	0.44	0.00	0.00	0.00	0.00	0.00
United Kingdom	0.9	0.2	1.0	1.9	2.8	3.4	4.5	2.4	1.9	2.0	1.9	1.9	0.50	0.50	0.50	0.50	1.04	2.01
Emerging Markets	**6.1**	**5.3**	**5.9**	**5.8**	**5.9**	**5.9**	**6.1**	**5.1**	**5.2**	**5.1**	**5.2**	**4.9**	**5.97**	**5.87**	**5.92**	**6.11**	**6.10**	**6.02**
China	**9.2**	**8.4**	**8.6**	**7.7**	**7.6**	**7.5**	**5.4**	**3.5**	**3.9**	**4.5**	**5.0**	**4.5**	**3.22**	**3.50**	**3.63**	**4.13**	**4.75**	**5.00**
Taiwan	4.0	3.7	4.2	4.5	4.5	4.5	1.4	1.4	1.7	1.8	1.8	1.8	0.70	0.87	1.08	1.25	1.50	1.75
India	6.9	7.0	7.5	8.2	8.3	8.5	9.0	6.7	6.5	6.0	6.0	6.0	8.13	7.69	7.50	7.50	7.50	7.50
Indonesia	6.5	6.3	6.5	6.7	7.0	6.7	5.4	4.9	5.2	5.5	5.8	6.0	5.43	4.15	3.80	3.80	3.90	4.15
Korea	3.6	3.7	4.4	4.1	4.0	4.2	4.0	3.3	3.1	3.1	3.0	3.2	3.44	3.57	4.15	4.50	5.00	5.19
Czech Republic	1.7	-0.4	2.0	2.8	3.6	3.8	1.9	3.1	1.4	2.3	2.0	1.6	0.75	0.75	0.85	1.33	1.65	2.50
Hungary	1.7	-0.1	1.4	2.1	2.0	1.8	3.9	5.3	3.4	3.5	3.1	3.3	6.04	6.98	6.06	6.00	5.94	5.02
Poland	4.3	2.1	2.8	3.1	3.4	3.4	4.2	3.5	2.6	2.5	2.5	2.5	4.22	4.25	3.75	4.35	4.75	4.75
Romania	2.5	1.7	3.1	4.2	4.3	4.3	5.8	2.6	2.0	2.5	2.5	2.5	6.21	5.13	5.00	5.00	5.00	5.00
Russia	4.3	3.5	4.0	4.0	4.0	4.1	8.4	5.5	6.8	5.8	5.5	5.0	8.00	7.50	6.00	6.00	5.50	5.00
Turkey	8.2	2.5	4.3	4.8	4.5	4.5	6.5	9.5	7.0	6.0	5.9	5.4	5.75	5.75	7.25	8.00	7.50	7.50
Nigeria	7.1	6.7	6.5	6.9	7.2	7.0	10.8	10.9	10.4	10.3	9.5	9.0	12.00	15.00	12.50	10.50	10.00	9.50
South Africa	3.1	2.9	3.8	4.4	4.4	4.5	5.0	5.9	5.4	5.4	5.5	5.5	5.50	5.75	7.25	8.50	8.75	8.50
Argentina	9.4	5.0	5.0	3.5	3.5	3.5	9.8	9.6	12.2	15.0	15.0	15.0	14.04	19.52	18.24	16.00	14.00	13.00
Brazil	2.9	3.3	4.5	4.5	4.5	4.5	6.6	5.5	5.1	4.5	4.0	4.0	11.71	9.71	10.79	10.25	9.00	8.25
Mexico	3.9	3.3	3.5	3.6	3.8	3.7	3.4	4.3	3.7	3.9	3.8	3.7	4.24	4.50	5.38	7.00	7.00	6.75
Venezuela	4.0	4.0	3.4	4.0	3.0	2.5	27.0	26.3	28.0	25.0	28.0	28.0	14.60	14.50	14.50	14.50	14.50	14.50

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: CIRA.

Figure 9. Selected Countries — Economic Forecast Overview (Percent), 2011-2016F

	Current Balance (Pct of GDP)						Fiscal Balance (Pct of GDP)						Government Debt (Pct of GDP)					
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Global	**0.2**	**0.2**	**0.4**	**0.4**	**0.4**	**0.3**	**-4.9**	**-4.3**	**-3.3**	**-2.8**	**-2.5**	**-2.2**	**74**	**75**	**75**	**74**	**73**	**72**
Based on PPP weights	*0.5*	*0.3*	*0.5*	*0.4*	*0.3*	*0.3*	*-4.3*	*-3.9*	*-3.1*	*-2.7*	*-2.5*	*-2.3*						
Industrial Countries	**-0.8**	**-0.5**	**-0.4**	**-0.3**	**-0.3**	**-0.3**	**-6.9**	**-5.7**	**-4.4**	**-3.8**	**-3.2**	**-2.7**	**106**	**110**	**112**	**113**	**114**	**114**
United States	**-3.1**	**-2.6**	**-2.5**	**-2.5**	**-2.7**	**-3.0**	**-9.3**	**-7.3**	**-6.2**	**-5.5**	**-5.0**	**-4.7**	**99**	**104**	**108**	**110**	**111**	**112**
Japan	**2.1**	**1.5**	**2.0**	**2.1**	**2.1**	**2.1**	**-10.7**	**-10.9**	**-8.5**	**-8.2**	**-7.8**	**-7.4**	**228**	**238**	**245**	**249**	**253**	**257**
Euro Area	**-0.3**	**-0.3**	**-0.3**	**-0.1**	**0.0**	**0.2**	**-4.3**	**-3.4**	**-2.2**	**-1.5**	**-0.9**	**-0.3**	**89**	**93**	**92**	**91**	**90**	**88**
Canada	-2.8	-2.7	-2.6	-2.9	-2.9	-2.5	-1.8	-1.5	-0.9	-0.4	-0.2	0.0	79	79	79	78	76	75
Australia	-2.2	-3.0	-5.0	-4.9	-3.5	-3.2	-3.4	-2.5	0.1	0.3	1.2	1.7	6	9	9	6	6	5
New Zealand	-3.9	-5.3	-7.2	-6.9	-5.8	-5.5	-9.2	-5.8	-2.6	-0.9	0.2	0.9	20	26	29	30	30	29
Germany	5.4	4.4	3.9	4.2	4.0	4.1	-1.0	-1.6	-1.1	-0.9	-0.8	-0.7	89	93	92	91	89	88
France	-2.3	-2.0	-1.1	-0.4	0.2	0.4	-5.5	-4.2	-2.8	-1.7	-0.7	-0.1	85	90	93	92	90	87
Italy	-3.2	-2.7	-2.2	-2.0	-1.8	-1.6	-4.4	-3.0	-1.3	-1.1	-0.5	0.6	121	129	131	132	131	128
Spain	-3.7	-2.9	-2.2	-2.0	-1.8	-1.5	-8.0	-6.0	-3.7	-2.3	-1.5	0.4	71	84	91	94	84	82
Greece	-9.6	-8.3	-6.7	-5.7	-4.7	-4.8	-14.1	-11.6	-8.7	-6.3	-4.7	-4.0	168	145	153	158	160	161
Ireland	0.6	3.2	4.3	5.8	7.3	8.5	-9.9	-9.7	-10.0	-8.2	-6.8	-5.4	105	117	128	133	135	137
Portugal	-8.4	-5.2	-2.4	-2.2	-2.1	-1.5	-5.9	-4.6	-4.1	-3.7	-2.6	-1.4	108	94	104	110	114	113
Netherlands	8.1	7.3	7.3	7.3	7.2	7.1	-4.1	-3.9	-3.5	-2.3	-1.5	-1.0	66	71	71	71	70	69
Belgium	-0.7	-2.0	-1.3	-0.5	0.5	1.0	-3.7	-2.5	-1.3	-0.4	0.4	0.8	97	108	107	104	99	95
Denmark	6.7	5.7	5.5	3.7	3.3	3.5	-2.5	-5.2	-3.9	-2.6	-2.1	1.0	45	49	51	52	53	50
Norway	14.0	14.3	14.9	15.2	15.8	16.5	12.0	12.5	13.5	15.0	17.0	18.5	NA	NA	NA	NA	NA	NA
Sweden	7.4	7.7	8.0	6.7	6.9	7.3	0.1	-0.4	-0.2	0.5	1.5	1.9	36	36	35	33	30	27
Switzerland	14.5	14.1	14.6	15.4	15.8	16.0	0.6	-0.2	-1.0	-1.3	-1.8	-2.3	53	52	52	54	55	57
United Kingdom	-2.4	-0.1	1.3	1.8	2.0	2.0	-8.0	-7.7	-6.8	-5.8	-4.4	-3.3	82	87	92	95	96	95
Emerging Markets	**2.1**	**1.5**	**1.7**	**1.4**	**1.3**	**1.2**	**-1.5**	**-1.8**	**-1.5**	**-1.4**	**-1.5**	**-1.6**	**16**	**16**	**15**	**15**	**15**	**14**
China	**2.8**	**2.0**	**1.5**	**1.0**	**1.0**	**1.0**	**-1.1**	**-2.0**	**-1.5**	**-1.0**	**-1.0**	**-1.0**	**15**	**16**	**16**	**15**	**14**	**14**
Taiwan	8.8	8.7	8.4	8.0	8.0	8.0	-2.5	-2.0	-1.8	-1.5	-1.2	-0.7	39	39	40	42	43	44
India	-3.5	-3.6	-3.2	-3.0	-2.9	-2.6	-8.3	-8.0	-7.5	-6.0	-6.0	-6.0	69	69	68	66	64	64
Indonesia	0.2	-0.3	-0.5	-0.7	-0.6	-0.5	-1.2	-1.0	-0.7	-0.3	-0.5	-0.5	26	25	24	23	23	22
Korea	2.5	1.1	1.0	0.7	-0.3	-0.3	0.5	0.7	1.2	1.5	1.4	2.1	33	33	31	30	28	26
Czech Republic	-2.3	-3.2	-3.4	-3.8	-3.3	-3.0	-3.7	-3.7	-3.1	-2.3	-1.5	-0.5	40	44	45	46	45	43
Hungary	2.0	1.6	1.8	2.0	2.2	2.1	3.5	-3.2	-3.0	-3.3	-2.9	-2.7	80	79	77	77	76	75
Poland	-4.1	-3.0	-4.0	-5.2	-5.5	-4.9	-5.1	-3.4	-2.4	-1.8	-1.6	-1.6	53	53	51	50	48	46
Romania	-4.1	-4.5	-4.7	-5.0	-5.0	-5.0	-4.4	-2.0	-2.0	-2.5	-2.3	-2.0	39	39	39	39	38	37
Russia	5.5	3.2	0.6	-1.0	-1.0	-1.0	0.8	-0.3	-0.5	-0.7	-1.7	-1.7	8	9	8	8	9	10
Turkey	-10.2	-8.4	-7.9	-7.2	-6.5	-5.8	-1.3	-2.2	-2.5	-2.5	-2.7	-3.0	40	40	38	38	37	35
Nigeria	5.9	5.3	6.0	4.7	3.7	3.2	-3.2	-2.8	-2.0	-2.4	-2.8	-2.4	NA	NA	NA	NA	NA	NA
South Africa	-3.4	-4.7	-5.6	-6.6	-6.3	-5.8	-5.0	-4.8	-4.2	-3.6	-3.5	-3.5	35	38	41	42	43	43
Argentina	0.4	0.3	0.2	-0.5	-0.5	-0.5	-1.6	-2.0	-2.0	-1.3	-0.6	0.1	49	49	49	52	53	53
Brazil	-2.1	-2.1	-2.4	-2.7	-3.0	-3.3	-2.7	-2.7	-2.9	-2.7	-2.5	-2.8	63	63	63	63	64	64
Mexico	-1.0	-2.1	-2.1	-2.5	-2.5	-2.7	-2.5	-2.2	-2.0	-1.9	-1.9	-1.8	39	40	39	38	38	38
Venezuela	10.4	8.6	9.9	8.4	9.3	9.1	-5.0	-5.0	-4.0	-5.2	-5.0	-4.8	36	38	33	32	33	33

Note: Fiscal deficit and debt figures for all countries are general government debt and deficits. We assume sovereign debt restructuring in Greece and Portugal in 2012-13.
Source: Citi Investment Research and Analysis

Figure 10. Selected Countries — Changes in Economic Forecast from the Previous Month (Percentage Points), 2011-2013F

	GDP Growth			CPI Inflation			Current Balance (Pct of GDP)			Fiscal Balance (Pct of GDP)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Global		**0.1**			**0.1**			**0.1**	**0.1**	**0.1**	**0.1**	**0.2**
Based on PPP weights	*0.1*	*0.1*						*0.1*	*0.1*	*0.1*	*0.2*	*0.2*
Industrial Countries		**0.1**			**0.1**		**0.1**	**0.2**	**0.1**		**0.2**	**0.2**
United States		**0.1**	**-0.1**		**0.3**		**-0.1**	**-0.2**	**-0.1**			
Japan	**0.1**	**0.2**	**0.1**			**0.1**	**0.2**	**0.3**	**0.4**			
Euro Area		**0.2**	**0.1**		**0.1**		**0.2**	**0.4**	**0.2**	**0.1**	**0.4**	**0.4**
Canada	0.1	0.2			0.1	0.1	0.3	0.8	0.5			
Australia				0.1								
New Zealand				-0.1						-1.2	0.2	0.4
Germany	0.1	0.2	0.3		0.1	0.3	0.2	0.6	0.8		0.1	0.2
France	0.1	0.4			-0.2	-0.2	0.3	0.2	0.3		0.3	0.4
Italy		-0.1	0.2		0.7	0.2	0.3	0.2	0.2	-0.2	-0.3	-0.1
Spain		-0.1	-0.3		-0.1	-0.1			0.1		-0.4	-0.7
Greece	-1.6	-3.1	0.5	-0.1	-0.3	0.3	-0.4	-3.9	-3.8	-1.5	-1.2	-2.9
Ireland												
Portugal	0.3	0.3	0.3		0.6	0.5	0.3	1.2	1.9	3.7	0.5	-0.7
Netherlands	-0.2	-0.5	-0.1		0.5			0.2	0.2	-0.5	-0.3	-0.5
Belgium	0.1	0.2			0.5				0.1		0.2	0.2
Denmark										1.5		
Norway			-0.1		0.1							
Sweden												
Switzerland		-0.9	-1.0		-0.6	-0.8	0.1	-0.4	-1.1	0.3	-0.8	-1.6
United Kingdom					-0.2	-0.4		0.1		0.4	0.2	0.2
Emerging Markets	**0.1**	**0.1**		**-0.1**	**-0.1**	**0.1**	**-0.1**			**0.2**	**0.3**	**0.2**
China							**-0.2**			**-0.1**		
Taiwan												
India	-0.2		-0.2				-0.1		-0.2			
Indonesia							-0.1			0.3		
Korea				-0.5	-0.1		0.3	-0.2				
Czech Republic		0.1					1.4	0.4	0.4		0.3	0.3
Hungary	0.5	-0.1	-0.1	-0.5			0.5	0.4	0.6	0.5		
Poland	0.1	0.2					0.2	0.4		0.1	0.1	
Romania							-0.6					
Russia	0.5					-0.2	-0.2	-0.3	-0.8	2.2	2.8	2.2
Turkey				0.4					-2.1			
Nigeria												
South Africa												0.1
Argentina										-0.7	-1.6	-2.4
Brazil												
Mexico		0.3	0.1	-0.1								
Venezuela												

Note: We did not include forecasts for Denmark in the last GEOS. Source: Citi Investment Research and Analysis

Figure 11. Selected Countries — Economic Forecast Overview and Exchange Rate Forecasts (Percent), 2011-2016F

	10-Year Yields						Exchange Rates Versus U.S. Dollar*						Exchange Rate Versus Euro					
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
Industrial Countries																		
United States	**2.79**	**2.15**	**2.70**	**3.05**	**3.35**	**3.75**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.39**	**1.31**	**1.27**	**1.31**	**1.33**	**1.35**
Japan	**1.12**	**1.06**	**1.40**	**1.50**	**1.75**	**1.75**	**79**	**80**	**78**	**79**	**82**	**84**	**110**	**104**	**99**	**104**	**109**	**114**
Euro Area	**2.71**	**1.51**	**1.70**	**2.10**	**2.40**	**2.70**	**1.39**	**1.31**	**1.27**	**1.31**	**1.33**	**1.35**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	2.78	2.20	3.00	3.35	3.45	3.75	1.01	0.99	0.99	0.97	0.97	0.97	1.39	1.29	1.26	1.27	1.29	1.32
Australia	4.63	3.90	4.70	5.00	5.50	6.00	1.01	1.06	0.95	0.89	0.88	0.87	1.37	1.24	1.34	1.46	1.51	1.55
New Zealand	4.74	3.70	4.40	5.10	5.70	6.30	0.77	0.82	0.69	0.63	0.62	0.62	1.79	1.60	1.84	2.09	2.13	2.18
Germany	2.71	1.51	1.70	2.10	2.40	2.70												
France	3.31	2.86	2.65	2.70	2.90	3.20												
Italy	5.19	5.71	5.25	5.40	5.40	5.20												
Spain	5.43	5.16	4.30	4.40	4.40	4.20												
Netherlands	3.04	1.94	1.88	2.25	2.55	2.85												
Belgium	4.21	3.66	3.30	3.20	3.30	3.40												
Denmark	2.80	1.46	1.70	2.20	2.60	2.95												
Norway	3.07	1.96	2.15	2.70	3.10	3.45	5.66	5.74	5.89	5.73	5.65	5.57	7.84	7.50	7.50	7.51	7.52	7.53
Sweden	2.66	1.37	1.65	2.15	2.50	2.95	6.60	6.74	6.89	6.68	6.58	6.48	9.14	8.80	8.78	8.75	8.75	8.75
Switzerland	1.53	0.75	0.75	0.75	0.95	1.15	0.90	0.93	0.97	0.97	0.98	1.00	1.25	1.21	1.23	1.27	1.31	1.35
United Kingdom	3.71	1.85	1.75	2.00	2.25	3.00	1.59	1.58	1.60	1.66	1.69	1.72	0.87	0.82	0.80	0.79	0.79	0.79
Emerging Markets																		
China	**3.52**	**3.27**	**3.52**	**3.90**	**4.52**	**4.77**	**6.46**	**6.25**	**6.08**	**5.95**	**5.86**	**5.81**	**8.57**	**8.16**	**7.74**	**7.80**	**7.80**	**7.85**
Taiwan	1.40	1.35	1.50	1.60	1.70	1.80	29.47	29.55	28.43	28.20	28.20	28.20	39.06	38.58	36.22	36.94	37.53	38.12
India	8.25	8.25	8.25	8.25	8.25	8.25	48.10	49.58	49.25	48.50	47.00	46.00	63.76	64.72	62.75	63.54	62.55	62.17
Indonesia	7.20	5.50	6.00	6.00	6.25	6.50	8768	9138	8975	8900	8800	8900	11623	11929	11435	11659	11711	12029
Korea	3.90	3.65	4.43	4.98	5.40	5.70	1108	1118	1053	1010	990	980	1469	1459	1341	1323	1317	1325
Czech Republic	3.51	0.95	1.00	1.43	1.75	4.00	17.8	19.2	19.4	18.1	17.3	16.6	23.6	25.1	24.7	23.7	23.1	22.4
Hungary	8.97	8.52	8.01	7.79	7.57	7.04	201	216	220	217	212	208	267	282	280	284	283	281
Poland	4.17	4.43	3.93	4.54	4.87	2.25	2.96	3.18	3.18	2.98	2.93	2.89	3.92	4.15	4.06	3.90	3.90	3.90
Romania	NA	NA	NA	NA	NA	NA	3.05	3.25	3.36	3.13	2.99	2.87	4.04	4.24	4.29	4.10	3.98	3.87
Russia	NA	NA	NA	NA	NA	NA	29.4	30.9	32.7	31.8	31.2	30.5	38.9	40.3	41.7	41.7	41.5	41.2
Turkey	NA	NA	NA	NA	NA	NA	1.68	1.77	1.81	1.77	1.71	1.64	2.22	2.31	2.31	2.32	2.27	2.22
Nigeria	NA	NA	NA	NA	NA	NA	155	160	163	163	165	164	206	209	208	214	220	222
South Africa	8.24	8.27	8.90	9.15	9.20	9.20	7.26	7.76	8.44	8.98	9.37	9.75	9.62	10.14	10.75	11.77	12.47	13.18
Argentina	NA	NA	NA	NA	NA	NA	4.16	5.31	5.97	6.79	7.54	8.36	5.51	6.93	7.60	8.89	10.03	11.31
Brazil	11.45	10.90	11.15	10.07	8.75	8.25	1.67	1.71	1.68	1.67	1.72	1.77	2.21	2.23	2.14	2.19	2.29	2.40
Mexico	6.87	6.52	7.50	8.10	8.00	8.00	12.4	12.6	12.5	12.3	12.6	12.9	16.5	16.5	15.9	16.2	16.8	17.4
Venezuela	13.65	13.55	13.53	13.50	13.50	13.50	4.30	4.30	6.50	6.50	9.75	9.75	5.70	5.61	8.28	8.52	12.98	13.18

*Per USD except Euro Area, Australia, New Zealand, United Kingdom. Note: All foreign exchange forecasts are consistent with the rolling forecasts presented in Figure 84. Source: Citi Investment Research and Analysis

Figure 12. Short Rates (End of Period), as of 22 Feb 2012 (Percent)

	Current	1Q 12	2Q 12	3Q 12	4Q 12	1Q 13	2Q 13
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	**1.00**	**1.00**	**0.75**	**0.50**	**0.50**	**0.50**	**0.50**
Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.50
Australia	4.25	4.25	4.00	4.00	4.00	4.25	4.50
New Zealand	2.50	2.50	2.50	2.50	2.50	3.00	3.50
Denmark	0.70	0.60	0.35	0.10	0.10	0.10	0.10
Norway	1.75	1.75	1.50	1.50	1.50	1.50	1.50
Sweden	1.50	1.50	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	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.75**	**3.75**

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

Figure 13. 10-Year Yield Forecasts (Period Average), as of 22 Feb 2012 (Percent)

	Current	2Q 12	3Q 12	4Q 12	1Q 13	2Q 13
United States	**2.07**	**2.05**	**2.20**	**2.40**	**2.50**	**2.65**
Japan	**0.96**	**0.95**	**1.00**	**1.20**	**1.30**	**1.40**
Euro area (Germany)	**1.97**	**1.60**	**1.50**	**1.50**	**1.50**	**1.50**
Canada	2.09	2.10	2.25	2.45	2.80	2.95
Australia	4.10	3.60	3.90	4.20	4.50	4.80
New Zealand	4.12	3.50	3.65	3.90	4.20	4.40
Denmark	1.95	1.55	1.45	1.45	1.45	1.50
Norway	2.40	2.00	1.95	2.00	2.00	2.05
Sweden	1.67	1.45	1.35	1.40	1.40	1.45
Switzerland	0.80	0.64	0.56	0.64	0.64	0.64
United Kingdom	2.22	1.85	1.70	1.60	1.60	1.60

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 Investment Research and Analysis

Figure 14. 10-Year Yield Spreads (Period Average), as of 22 Feb 2012

	Spread vs. US$					Spread vs. Germany				
	Current	2Q 12	3Q 12	4Q 12	1Q 13	Current	2Q 12	3Q 12	4Q 12	1Q 13
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**11**	**46**	**71**	**91**	**102**
Japan	**-112**	**-111**	**-121**	**-121**	**-122**	**-101**	**-65**	**-50**	**-30**	**-20**
Euro Area	**-11**	**-46**	**-71**	**-91**	**-102**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	2	5	5	5	30	13	51	76	97	132
Australia	206	157	173	183	203	217	203	244	274	305
New Zealand	208	147	147	152	173	219	193	218	244	274
France	97	104	59	39	18	107	150	130	130	120
Italy	339	404	359	309	298	349	450	430	400	400
Spain	299	354	309	239	198	309	400	380	330	300
Netherlands	36	4	-31	-61	-77	46	50	40	30	25
Belgium	166	184	149	119	88	176	230	220	210	190
Denmark	-12	-51	-76	-96	-107	-2	-5	-5	-5	-5
Norway	33	-6	-26	-41	-52	43	40	45	50	50
Sweden	-40	-61	-86	-101	-112	-30	-15	-15	-10	-10
Switzerland	-127	-142	-165	-177	-188	-117	-96	-94	-86	-86
United Kingdom	15	-21	-51	-81	-92	25	25	20	10	10

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 Investment Research and Analysis

Figure 15. Emerging Market Countries — Short Rates Actual and Forecast of Additional Rate Moves (End of Period), as of 22 Feb 2012

Country	Current Rate (%)	Mar 12	Jun 12	Sep 12	Dec 12	Total Cumulative Rate Moves Expected
South Africa	5.50	0	0	50	50	100
Colombia	5.00	50	0	0	25	75
Turkey	5.75	0	0	0	0	0
Mexico	4.50	0	0	0	0	0
Korea	3.25	0	0	0	0	0
Czech	0.75	0	0	0	0	0
China	3.50	0	0	0	0	0
Indonesia	3.75	-25	0	0	0	-25
Philippines	4.25	-25	0	0	0	-25
Israel	2.50	0	-25	0	0	-25
Hungary	7.00	0	0	0	-25	-25
Thailand	3.00	-25	-25	0	0	-50
Russia	8.00	-25	0	0	-25	-50
Chile	5.00	-25	-25	-25	0	-75
Poland	4.50	0	0	-50	-25	-75
India	8.50	-25	-25	-25	-25	-100
Brazil	10.50	-50	-50	0	0	-100

Source: Citi Investment Research and Analysis

Figure 16. Foreign Exchange Forecasts (End of Period), as of 22 Feb 2012

	vs. USD						vs. EUR					
	Current	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Current	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.33**	**1.33**	**1.33**	**1.30**	**1.27**	**1.26**
Japan	**79**	**80**	**81**	**80**	**79**	**78**	**105**	**107**	**107**	**103**	**99**	**98**
Euro Area	**1.33**	**1.33**	**1.33**	**1.30**	**1.27**	**1.26**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	0.99	0.99	0.98	0.99	1.00	1.00	1.31	1.31	1.30	1.28	1.26	1.25
Australia	1.08	1.08	1.08	1.05	1.02	0.99	1.23	1.23	1.23	1.24	1.25	1.27
New Zealand	0.84	0.85	0.84	0.81	0.77	0.74	1.58	1.57	1.57	1.61	1.64	1.70
Norway	5.65	5.63	5.65	5.78	5.92	5.97	7.50	7.50	7.50	7.50	7.50	7.50
Sweden	6.65	6.61	6.63	6.79	6.95	7.01	8.82	8.81	8.80	8.80	8.80	8.79
Switzerland	0.91	0.91	0.91	0.94	0.96	0.97	1.21	1.21	1.21	1.21	1.22	1.22
United Kingdom	1.59	1.59	1.59	1.58	1.57	1.57	0.84	0.84	0.83	0.82	0.81	0.80
China	**6.30**	**6.29**	**6.27**	**6.24**	**6.20**	**6.15**	**8.40**	**8.40**	**8.30**	**8.10**	**7.90**	**7.70**
India	49.3	50.3	49.5	49.0	49.5	50.0	65.3	67.0	65.7	63.5	62.7	62.8
Korea	1123	1135	1120	1115	1100	1080	1489	1512	1486	1446	1393	1356
Poland	3.15	3.11	3.10	3.20	3.30	3.32	4.17	4.14	4.11	4.15	4.18	4.17
Russia	29.8	29.6	30.0	31.3	32.6	33.1	39.4	39.5	39.9	40.6	41.2	41.6
South Africa	7.66	7.61	7.63	7.82	8.00	8.17	10.16	10.14	10.12	10.13	10.13	10.26
Turkey	1.74	1.74	1.75	1.78	1.81	1.82	2.31	2.32	2.32	2.31	2.29	2.28
Brazil	1.71	1.71	1.71	1.71	1.70	1.69	2.27	2.28	2.27	2.21	2.16	2.13
Mexico	12.7	12.6	12.6	12.6	12.7	12.7	16.8	16.8	16.7	16.4	16.1	15.9

Note: All foreign exchange forecasts are consistent with the rolling forecasts presented in Figure 83. Source: Citi Investment Research and Analysis

Figure 17. Foreign Exchange Forecasts (End of Period), as of 22 Feb 2012

	vs. JPY					
	Current	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13
United States	**79**	**80**	**81**	**80**	**79**	**78**
Japan	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Euro Area	**105**	**107**	**107**	**103**	**99**	**98**
Canada	80	81	82	80	79	78
Australia	86	87	87	83	80	77
New Zealand	66.8	68.1	68.0	64.2	60.5	57.5
Norway	14.1	14.2	14.2	13.8	13.3	13.1
Sweden	11.9	12.1	12.1	11.7	11.3	11.1
Switzerland	87	88	88	85	82	80
United Kingdom	126	127	128	126	123	123
China	**13**	**13**	**13**	**13**	**13**	**13**
India	1.61	1.59	1.63	1.62	1.59	1.56
Korea	14.14	14.16	13.90	14.02	14.00	13.85
Poland	25.2	25.8	26.0	24.9	23.8	23.5
Russia	2.7	2.7	2.7	2.5	2.4	2.4
South Africa	10.4	10.5	10.6	10.2	9.8	9.5
Turkey	45.6	46.0	46.0	44.7	43.5	42.9
Brazil	46.4	46.8	47.1	46.7	46.2	46.0
Mexico	6.3	6.3	6.4	6.3	6.2	6.1

Note: All foreign exchange forecasts are consistent with the rolling forecasts presented in Figure 83 Source: Citi Investment Research and Analysis

Country Commentary

United States

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

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

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

Economic growth is continuing at a modest pace sustained by increasing employment, supportive policies and a mild winter. The Fed's latest effort to lower interest rates along with relative calm in global markets has buoyed investor confidence but conditions do not point to a major acceleration in growth. Rising demand for autos and business equipment indicates that key cyclical forces are pushing activity forward, and these are gradually overtaking diminishing drag from housing and state and local spending. Nonetheless, the threat of ill-timed major fiscal restraint looms over the two-year horizon.

The Fed's latest easing move successfully lowered interest rates and helped lift credit and equity markets. The chance that growth might disappoint official projections has kept alive the option for renewed asset purchases, most likely to support the mortgage market, either later this year or in 2013. Although job growth is sufficient to lower unemployment, officials have cautioned that the reported decline in the jobless rate overstates the pace of improvement and threats to financial stability from abroad remain. Payroll tax relief and other temporary supports have been extended as expected, but absent legislation, sweeping tax hikes and spending cuts that could undermine recovery are scheduled for 2013.

Earlier spurs to higher inflation have unwound but deflation tail risks have faded and underlying measures are projected to remain close to target. This has aided growth, especially where temporary bottlenecks had been a source of price pressure. Business pricing plans have steadied and with a slack job market, wage growth remains slow. Low inflation this year could provide a degree of freedom for Fed policymakers weighing the costs and benefits of additional accommodation.

Figure 18. United States — Economic Forecasts, 2011E-2013F

					2011		2012				2013	
		2011E	2012F	2013F	3Q	4QE	1QF	2QF	3QF	4QF	1QF	2Q
GDP	SAAR				1.8%	2.5%	2.0%	1.6%	2.2%	2.2%	0.9%	1.5%
	YoY	1.7%	2.0%	1.8%	1.5	1.5	1.9	2.0	2.1	2.0	1.7	1.7
Domestic Demand	SAAR				2.7	0.9	2.3	1.5	2.1	2.1	0.5	1.4
	YoY	1.8	1.8	1.6	1.8	1.3	1.8	1.8	1.7	2.0	1.5	1.5
Consumption	SAAR				1.7	1.9	2.0	1.7	2.3	2.3	0.9	1.6
	YoY	2.2	1.9	1.8	2.0	1.6	1.6	1.8	2.0	2.1	1.8	1.8
Business Investment	SAAR				15.7	3.0	7.2	5.1	5.4	5.3	5.6	4.6
	YoY	8.7	6.8	5.2	9.1	7.6	9.0	7.6	5.2	5.7	5.3	5.2
Housing Investment	SAAR				1.3	11.6	12.1	9.4	14.3	14.5	15.3	16.2
	YoY	-1.3	10.1	15.4	1.4	3.5	7.2	8.5	11.8	12.6	13.4	15.1
Government	SAAR				-0.1	-4.6	-0.4	-2.2	-1.7	-1.5	-5.8	-3.0
	YoY	-2.1	-1.7	-2.8	-2.4	-2.9	-1.5	-1.8	-2.2	-1.4	-2.8	-3.0
Exports	SAAR				4.7	4.2	4.4	4.6	5.5	5.7	5.7	5.4
	YoY	6.8	4.6	5.5	6.0	5.1	4.2	4.5	4.7	5.0	5.4	5.6
Imports	SAAR				1.2	3.7	2.9	3.4	4.3	4.6	4.2	4.2
	YoY	4.9	3.1	4.3	2.1	3.6	2.3	2.8	3.6	3.8	4.1	4.3
PCE Deflator	YoY	2.4	2.2	1.8	2.9	2.6	2.2	1.8	1.6	1.8	1.6	1.6
Core PCE Deflator	YoY	1.4	2.0	1.7	1.6	1.7	1.8	1.7	1.6	1.7	1.6	1.6
Unemployment Rate	%	9.0	8.1	8.0	9.1	8.7	8.3	8.2	8.1	7.9	8.0	8.1
Federal Gov't Balance (Fiscal Year)	$Bn	-1296	-1125	-975								
	% of GDP	-8.7	-7.3	-6.0								
General Gov't Balance (Cal Year)	% of GDP	-9.3	-7.3	-6.2								
Federal Debt	% of GDP	68	74	77								
General Gov't Debt	% of GDP	99	104	108								
Current Account	US$bn	-467	-403	-411	-441	-451	-415	-412	-386	-399	-387	-408
	% of GDP	-3.1	-2.6	-2.5	-2.9	-3.0	-2.7	-2.7	-2.5	-2.5	-2.4	-2.5
S&P 500 Profits (US$ Per Share)	YoY	14.4	3.3	4.5	17.9	8.7	5.5	4.6	-0.6	3.8	3.0	4.0

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

Japan

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

We slightly revise up our growth forecast for 2012 from +1.0% as of January to +1.2% this time, reflecting emerging signs of the modest improvement in the external environment. Recent survey data showed tentative signs of stabilization in activity in some of the major trading partners, while the yen depreciated against USD moderately in the wake of the BoJ's new easing action. While we expect only slight growth in the first half of 2012 amid export weakness, activity likely will accelerate to an annual rate of 2% or higher in the second half thanks to moderately faster global growth and reconstruction demand from the earthquake. However, deflation will probably persist well into 2013.

The Bank of Japan made two key decisions in mid-February. First, policymakers expanded the size of the asset purchase program, more specifically JGB purchases, by 10 trillion yen. Second, the BoJ introduced the price stability goal in the medium to long term of 1% and showed its commitment to pursuing powerful easing with aim of achieving this goal. These decisions pushed down the JGB yields albeit modestly, while US Treasury yields rose in recent weeks as economic data generally surprised to the upside. The resulting widening in interest rates differential sent the yen weaker near Y80 and also propped up Japan's equity markets. If a renewed upward pressure on the yen should emerge, the BoJ is likely to take additional easing measures.

Debates about the consumption tax hike will be a key policy issue this year. PM Noda plans to propose the consumption tax bill calling for a tax rate hike to 8% in April 2014 from 5% currently and to 10% in October 2015. In making our economic forecasts, we have yet to reflect the government's plan as there remain significant political hurdles to the tax hike. However, if the plan is implemented, GDP growth in 2013 will probably be pushed up by nearly 2% thanks to frontloaded demand ahead of price hikes but growth in 2014 will worsen thanks to a resulting decline in spending as well as a permanent negative impact on real household income.

Figure 19. Japan — Economic Forecasts, 2011-13F

					2011		2012				2013	
		2011F	2012F	2013F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	-0.9%	1.2%	1.4%	-0.6%	-1.0%	1.0%	1.6%	0.6%	1.6%	1.7%	1.7%
	SAAR				7.0	-2.3	1.1	0.9	2.5	2.0	1.2	1.2
Domestic Demand	YoY	0.0	1.9	1.1	0.0	0.1	2.3	1.9	1.6	1.9	1.5	1.4
	SAAR				3.8	0.3	2.5	1.1	2.5	1.7	0.6	0.9
Private Consumption	YoY	0.0	1.3	0.7	0.3	0.5	2.1	1.6	0.8	0.6	0.4	0.8
	SAAR				4.2	1.2	1.9	-0.9	0.9	0.6	1.1	0.6
Business Investment	YoY	0.2	2.0	3.7	-2.3	1.2	1.7	2.0	2.7	1.7	3.0	3.9
	SAAR				-0.1	7.9	0.0	0.2	3.0	3.7	5.1	3.9
Housing Investment	YoY	5.1	4.1	6.0	7.7	2.7	1.6	5.2	2.4	7.2	9.4	8.5
Public Investment	YoY	-3.3	7.5	-8.1	-0.9	-0.2	4.3	4.7	9.6	11.5	2.5	-7.5
Exports	YoY	0.0	0.7	4.9	1.2	-1.7	-1.9	5.3	-2.3	2.0	4.0	4.8
	SAAR				39.0	-11.9	-2.0	2.3	3.2	4.6	6.0	5.3
Imports	YoY	5.9	5.6	3.2	5.2	5.8	6.6	7.3	4.5	4.2	3.1	3.1
	SAAR				14.2	4.1	7.2	4.0	2.8	2.9	2.8	4.1
CPI	YoY	-0.3	-0.4	-0.1	0.2	-0.3	-0.4	-0.4	-0.5	-0.4	-0.3	-0.1
Core CPI	YoY	-0.3	-0.4	-0.1	0.2	-0.2	-0.3	-0.5	-0.5	-0.4	-0.3	-0.1
Nominal GDP	YoY	-2.8	0.3	0.9	-2.6	-2.6	-0.4	1.0	-0.3	0.8	1.1	1.2
Current Account	¥ tn	9.6	6.9	9.5	10.8	7.0	6.1	6.4	7.1	8.0	9.2	9.3
	% of GDP	2.1	1.5	2.0	2.3	1.5	1.3	1.4	1.5	1.7	1.9	2.0
Unemployment Rate	%	4.6	4.5	4.4	4.4	4.5	4.6	4.5	4.5	4.4	4.5	4.4
Industrial Production	YoY	-3.5	2.8	2.4	-2.1	-2.8	2.7	5.0	1.1	2.7	0.5	3.3
Corporate Profits (Fiscal Year)	YoY	-17.0	18.0	20.0								
General Govt. Balance (Fiscal Year)	% of GDP	-10.7	-10.9	-8.5								
General Govt Debt	% of GDP	228	238	245								

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 Investment Research and Analysis

Euro Area

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

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

We are revising up slightly our euro area GDP forecast by 0.2 points to -1.3% for 2012. The upward revision is due partly to a smaller-than-expected contraction in 4Q 2012 and stronger-than-expected sentiment data in early 2012. However, with extra fiscal tightening in the pipeline in most EMU countries and with tighter bank lending conditions feeding through to the private sector, we continue to expect a sizable fall in GDP this year and a modest drop (0.3%) in 2013.

While Greece and the Eurogroup seem to have prevented an imminent disorderly Greek default, the Greek situation remains a huge source of uncertainty. If Greece is unable or unwilling to fulfil the austerity measures and structural reforms required by the Troika, the resultant lack of financing could leave Greece forced to leave the euro area. In this case, we expect that governments and the ECB would take action in order to prevent the euro area from splintering further. Even if Greece complies with the Troika requests, we expect that further debt restructuring — in which the main contribution will have to come from the public sector — will be needed to bring Greece onto a sustainable fiscal path. By giving the Eurosystem for its SMP bond holdings a de-facto preferred creditor status in the Greek debt restructuring, the operation is also likely to have negative consequences for all sovereign bond markets in which the ECB has intervened (Ireland, Portugal, Italy and Spain).

We expect that — unless the situation in Greece worsens rapidly in coming weeks — the ECB will leave interest rates unchanged in March and April. However, with more signs of worsening credit availability and that inflation will undershoot the ECB's target of "*below, but close to 2%*" in the medium term, we expect the ECB to cut the refi rate by 25bp (to 0.75%) in late 2Q and to lower it further to 0.5% in 2H. We expect take-up in the 2nd 3Y LTRO of €400bn-€500bn. The ECB is likely to assess the impact of the two 3Y LTROs in the next few months before using additional liquidity tools, but if banks require additional support — i.e. if Greece leaves EMU — the ECB will act quickly.

Figure 20. Euro Area — Economic Forecasts, 2011F-13F

					2011		2012				2013	
		2011F	2012F	2013F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	1.5%	-1.3%	-0.3%	1.3%	0.7%	-0.9%	-1.3%	-1.7%	-1.4%	-0.7%	-0.4%
	SAAR				0.5	-1.3	-3.3	-1.2	-1.1	-0.1	-0.5	0.1
Final Domestic Demand	YoY	0.4	-1.3	-0.4	0.3	-0.3	-1.3	-1.2	-1.6	-1.2	-0.8	-0.6
Private Consumption	YoY	0.1	-0.8	0.0	0.0	-0.7	-1.0	-0.6	-0.9	-0.5	-0.3	-0.2
Government Consumption	YoY	0.1	-1.5	-1.3	0.0	-0.4	-1.0	-1.4	-1.8	-1.7	-1.6	-1.4
Fixed Investment	YoY	1.8	-2.9	-0.5	1.3	1.0	-2.5	-2.9	-3.2	-2.8	-1.2	-0.7
— Business Equipment	YoY	3.5	-3.6	-1.3	3.2	1.6	-1.9	-3.3	-4.7	-4.4	-2.5	-1.6
— Construction	YoY	-0.1	-2.9	-0.1	-1.0	0.1	-3.7	-3.3	-2.6	-2.0	-0.6	-0.3
Stocks (Contrib. to Y/Y GDP Growth)		0.0	-0.2	0.0	0.1	-0.2	-0.2	-0.4	-0.3	0.0	0.0	0.0
Exports	YoY	6.6	-0.8	1.8	5.8	3.7	0.6	-0.7	-1.8	-1.2	0.3	1.3
Imports	YoY	4.4	-1.3	1.4	3.7	0.9	-0.8	-1.5	-2.2	-0.8	0.3	0.9
CPI	YoY	2.7	2.3	1.4	2.7	2.9	2.5	2.3	2.4	1.9	1.6	1.4
Core CPI	YoY	1.4	1.5	1.0	1.3	1.6	1.5	1.5	1.7	1.3	1.2	1.0
CPI Ex Energy and Food	YoY	1.7	1.7	1.1	1.7	2.0	1.7	1.8	1.7	1.4	1.4	1.1
Unemployment Rate	YoY	10.1	10.7	10.9	10.2	10.4	10.5	10.7	10.8	10.8	10.9	10.9
Current Account Balance	EUR bn	-30.6	-26.1	-27.9								
	% of GDP	-0.3	-0.3	-0.3								
General Government Balance	EUR bn	-400.8	-323.2	-211.6								
	% of GDP	-4.3	-3.4	-2.2								
General Government Debt	EUR bn	8223.2	8546.4	8758.0								
	% of GDP	88.6	93.3	92.5								
Gross Operating Surplus	YoY	2.0	-0.6	0.3								

Sources: Eurostat and Citi Investment Research and Analysis

Germany

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

While we expect Germany to be in a technical recession, forecasting a second consecutive quarter of falling GDP in 1Q, we have revised up our GDP forecast for 2012 by 0.2 points to 0.6% and the 2013 forecast by 0.3 points to 1.5%. Recent sentiment data suggest that domestic demand will recover quickly and, with improving conditions for global demand, exports are likely to contribute to GDP growth as well. The trade unions have started the wage negotiations with ambitious demands of 6.5%. While we do not expect that this will be the outcome of the negotiations, wages in main sectors probably will increase in a range between 3% and 4%, which is likely to create some upside inflationary pressure over time.

France

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

President Sarkozy has confirmed that he will run in the upcoming Presidential elections (which take place in two rounds, on 22 April and 6 May). Sarkozy is trying to project the image of a president focused on resolving the sovereign debt crisis, while attempting to raise France's potential growth rate. His strategy of ignoring the unpopularity of the planned October VAT hike, and announcing more reforms to revamp France's expensive social model, is risky. But he has little choice, in our view. All polls suggest a comfortable win of around 14 points for Socialist candidate Francois Hollande, whose agenda is more skewed towards tax hikes than spending cuts. However, neither candidate will be able to avoid increasing the fiscal drag. Although a better +0.2% QQ Q4 11 GDP outcome has pushed up our 2012 forecast from -0.7% to -0.3%, we expect that GDP growth in 2013 (Citi +0.5%) will fall short of the next government's 2.0-2.5% GDP baseline.

Italy

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

With thanks to Carla Clifton

The contraction in Italian GDP in Q4 2011 was larger than expected and we see GDP falling by 2.4% this year. Mr. Monti's Government is likely to adopt further austerity measures in an attempt to bring the deficit down to the 1.6% target for this year. Such austerity will likely put additional downward pressure on growth which will be only partially offset by tax cuts and other growth stimulating measures currently under consideration. Moreover, the Government's reforms of the country's labour and product markets will take time to affect growth and as such we do not see Italy reaching a balanced budget until 2015, two years later than planned.

Figure 21. Germany, France and Italy — Economic Forecasts, 2011F-13F

		Germany			France			Italy		
		2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	3.1%	0.6%	1.5%	1.7%	-0.3%	0.5%	0.4%	-2.4%	-0.5%
Final Domestic Demand	YoY	2.3	1.0	1.2	0.9	-0.3	0.4	-0.1	-2.8	-1.4
Private Consumption	YoY	1.2	1.0	1.0	0.3	-0.1	0.5	0.3	-1.9	-0.8
Fixed Investment	YoY	7.2	1.3	3.0	2.9	-1.6	0.4	-1.0	-4.3	-2.2
Exports	YoY	8.5	1.3	4.0	5.0	3.1	4.2	6.6	-1.4	-0.4
Imports	YoY	7.5	2.9	4.2	5.0	0.0	3.4	1.1	-4.1	-1.8
CPI	YoY	2.3	1.8	2.3	2.3	2.3	1.6	2.9	3.4	2.1
Unemployment Rate	%	6.0	5.8	5.8	9.2	9.4	9.2	8.3	10.4	12.6
Current Account	€bn	136.4	114.2	104.5	-46.8	-40.4	-23.8	-50.9	-42.4	-34.4
	% of GDP	5.4	4.4	3.9	-2.3	-2.0	-1.1	-3.2	-2.7	-2.2
General Govt. Balance	€bn	-26.4	-40.8	-28.2	-110.7	-86.0	-59.6	-69.0	-46.4	-21.0
	% of GDP	-1.0	-1.6	-1.1	-5.5	-4.2	-2.8	-4.4	-3.0	-1.3
General Govt. Debt	% of GDP	89.3	92.7	92.3	85.1	90.1	92.5	121.4	129.1	130.8
Gross Trading Profits	YoY	3.0	-0.8	2.7	3.0	-2.0	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, and Citi Investment Research and Analysis

Spain

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

With thanks to Carla Clifton

We are cutting our 2012 GDP growth forecast slightly to -2.8% from -2.7% to reflect the huge fiscal tightening expected in the 2012 Budget. For 2013 we are cutting our forecast to -1.6% from -1.3% to reflect extra fiscal tightening that is likely to be needed to hit the 2013 deficit target of 3% of GDP. Spain is pushing forwards with structural reforms, but these are likely to result in extra job losses near term: any eventual payoff from a more flexible labour market is distant.

Greece

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

With thanks to Carla Clifton

The economy continued to fall sharply in 4Q-11 and recently approved extra austerity measures are likely to intensify the contraction in GDP this year. We now expect a fall in GDP of 8.0% in 2012, revised down from -4.9%. For 2013 we expect a further contraction by 2.6% (revised up from -3.1%). These forecasts assume that the 2nd bailout goes ahead (as agreed by the Eurogroup) and that Greece will stay in the euro area. However, with what we see as a 50% probability of Greece leaving, the forecast is very uncertain. If Greece leaves the Euro, we anticipate an even sharper recession in 2012/13.

Ireland

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

Recent data suggest the 2011 fiscal deficit was just below 10% of GDP, and below the IMF's latest forecast (10.3% of GDP). However, renewed recession is likely this year, with extended economic weakness in coming years, because of headwinds from high private debts, tight fiscal policy and weakness in key export markets. We doubt the government will succeed in its aim of stabilizing the public debt/GDP ratio below 120% of GDP in 2013, and we also doubt the government will be able to regain normal market access in 2012-13. Hence, Ireland may well need a longer period of fiscal austerity — and a second bailout, perhaps including some PSI.

Portugal

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

With thanks to Carla Clifton

In 2011, the country entered a period of deep fiscal austerity in an attempt to get to fiscal sustainability. However, with weak external demand and tight bank lending conditions, we expect austerity will result in a severe recession and do not expect Portugal will regain normal market access in 2013, as the Troika assumes. We continue to expect Portugal to ask for a second bailout and to undergo sizeable debt restructuring, of at least 35% (and possibly more) in 2012 or 2013.

Figure 22. Spain, Greece, Ireland and Portugal — Economic Forecasts, 2011F-13F

		Spain			Greece			Ireland			Portugal		
		2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	0.7%	-2.8%	-1.6%	-7.0%	-8.0%	-2.6%	0.8%	-0.7%	0.3%	-1.5%	-5.5%	-3.4%
Final Domestic Demand	YoY	-1.7	-5.0	-3.6	-8.8	-9.1	-4.3	-4.3	-7.5	-3.4	-4.9	-6.9	-4.3
Private Consumption	YoY	-0.1	-2.8	-1.3	-6.6	-8.0	-3.2	-3.3	-3.2	-2.3	-3.6	-4.9	-2.8
Fixed Investment	YoY	-5.2	-9.7	-6.3	-15.8	-12.7	-9.4	-16.2	-26.3	-19.7	-10.8	-13.9	-7.6
Exports	YoY	9.1	0.8	2.9	-0.8	-1.0	1.8	4.9	4.2	3.8	8.2	3.0	2.1
Imports	YoY	-0.1	-6.7	-3.3	-9.3	-6.3	-5.1	-0.3	-0.7	1.6	-3.7	-1.5	-0.7
CPI	YoY	3.1	2.3	1.7	3.1	1.2	-0.4	-0.8	0.2	0.0	3.6	3.0	1.9
Unemployment Rate	%	21.6	24.4	25.8	17.5	22.6	24.9	14.4	16.3	17.5	12.7	NA	NA
Current Account	€bn	-39.8	-31.4	-24.9	-20.6	-16.6	-13.4	0.9	5.0	6.6	-11.6	-8.7	-5.1
	% of GDP	-3.7	-2.9	-2.2	-9.6	-8.3	-6.7	0.6	3.2	4.3	-8.4	-5.2	-2.4
General Govt. Balance	€bn	-86.5	-63.0	-38.0	-30.0	-22.8	-16.6	-18.1	-16.1	-13.5	-10.2	-7.6	-6.4
	% of GDP	-8.0	-6.0	-3.7	-14.1	-11.6	-8.7	-9.9	-9.7	-10.0	-5.9	-4.6	-4.1
General Govt. Debt	% of GDP	71.0	83.5	90.8	168.1	145.3	153.0	105.4	117.3	127.7	108.4	93.8	104.3

F Citi forecast. YoY Year-to-year growth rate. For Ireland we show the GDP deflator rather than the CPI.
Sources: ISTAT, INE, Haver Analytics, Eurostat, and Citi Investment Research and Analysis

Netherlands

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

While we expected that the Netherlands would be back in recession in 2H 2011, the contraction in GDP in 4Q of 0.7% QQ was larger than expected. With deteriorating sentiment indicators and increasing unemployment, we do not see near-term signs of a recovery. As tighter financing conditions increasingly create headwinds for the highly leveraged Dutch private sector, we expect a contraction in consumption and gross fixed capital formation in 2012. Compared to January, we have revised down our 2012 GDP forecast by 0.5 points to -1.2%. Despite the fiscal tightening, we expect the general government deficit-to-GDP to remain elevated at 3.9% in 2012.

Belgium

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

Belgium is in recession, with GDP falling by 0.1% QoQ in Q3-2011 and by 0.2% QoQ in Q4. We forecast that GDP will fall by about 0.5% in 2012, leading to renewed deficit slippage and hence probably forcing extra fiscal tightening. Some questions remain about the government's ability to quickly agree on the required budget savings to achieve its medium-term fiscal consolidation plans. Uncertainty also remains about risks of additional financial support to the banking system. We forecast a modest recovery in 2013, looking for GDP growth of 0.8%, with tight fiscal policy to try and cut the public debt/GDP ratio.

Slovakia

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

GDP surprisingly accelerated to 3.3%YoY in Q4-2011 from 3.2% in Q3. We had previously been expecting zero GDP growth in 2012, below the MinFin's 1.1% forecast, but are now raising our forecast to 0.7%. Nevertheless, domestic demand remains lacklustre and new fiscal consolidation measures are likely after the 10 March general election. Pre-election polls suggest leftwing SMER-SD will win, possibly with a majority.

Slovenia

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

Domestic demand continued to suffer in 4Q11, partly offset by net exports. As a result we estimate 4Q11 GDP remained falling by 0.1%YoY. The prospect of foreign demand appears to have improved, and is likely to offset lacklustre demand burdened by the impaired construction and banking sectors. Slovenia's rating was cut by all three key rating companies in January to the range A/A+. We think the new centre-right wing government needs to introduce structural changes and fiscal consolidation to support the economy and to avoid further rating downgrades.

Figure 23. Netherlands, Belgium, Slovakia and Slovenia — Economic Forecasts, 2011F-2013F

		Netherlands			Belgium			Slovakia			Slovenia		
		2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	1.3%	-1.2%	0.4%	1.9%	-0.5%	0.8%	3.3%	0.7%	2.10%	0.6%	-0.4%	1.5%
Final Domestic Demand	YoY	0.8	-1.2	0.2	2.1	-0.2	0.4	0.6	0.3	1.3	-2.5	-2.3	0.1
Public Consumption	YoY	0.4	-0.7	0.2	0.7	-0.2	0.0	-2.8	-1.5	0.0	-0.3	-1.2	0.5
Private Consumption	YoY	-0.9	-0.8	0.4	0.7	-0.3	0.4	-0.2	-0.5	1.0	0.2	-0.4	1.0
Investment (Ex Stocks)	YoY	5.6	-3.0	-0.3	5.6	0.4	0.7	5.1	2.6	2.6	-12.0	-4.4	2.2
Exports	YoY	3.7	0.1	2.5	5.0	-0.6	2.6	9.9	0.7	5.5	7.9	-1.3	2.0
Imports	YoY	3.5	-0.4	2.4	5.5	-0.3	2.0	5.4	-1.2	5.3	5.5	-2.7	1.6
CPI (Average)	YoY	2.3	2.3	1.8	3.5	2.8	1.7	3.9	3.0	2.9	1.8	0.6	2.5
Unemployment Rate	%	5.3	6.2	6.1	7.2	7.7	8.1	13.2	14.6	14.6	8.1	9.2	10.0
Current Account	% of GDP	8.1	7.3	7.3	-0.7	-2.0	-1.3	-1.0	0.7	0.1	-0.6	0.0	0.5
General Govt Balance	% of GDP	-4.1	-3.9	-3.5	-3.7	-2.5	-1.3	-4.6	-5.9	-3.2	-4.7	-5.5	-3.6
General Govt Debt	% of GDP	65.6	71.3	70.8	96.7	108.3	107.1	43.6	48.3	49.1	42.9	48.2	50

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

UK

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

Our UK forecasts are little changed from last month, and we continue to look for GDP growth of about 0.2% this year and about 1% in 2013. This is the first month since May-2011 that we have not cut our UK growth forecasts. Nevertheless, it is touch and go whether the UK will go back into recession (defined as two consecutive negative quarters). GDP did fall in Q4-11 (by 0.2% QoQ) but partial data suggest that GDP is rising slightly in Q1-2012. We still expect the economy will be roughly flat in the next few quarters, and subdued thereafter.

With the economy roughly flat and inflation clearly slowing, the MPC in February decided to expand QE to £325bn (from £275bn previously), aiming to implement this increase by end-April. We expect that the MPC will subsequently expand QE further, in a series of stages. But we have cut our forecast for the total QE programme to £500bn from £600bn, because the MPC's view that the economy will recover strongly in 2013 implies they will be less aggressive in loosening. The MPC believe that QE can provide some stimulus to the economy, but that it takes a very large amount of QE to have much effect. The MPC are likely to drip-feed the extra QE into markets alongside evidence that the economy remains sluggish, inflation is falling and inflation expectations are benign. CPI inflation fell to 3.6% YoY in January from 4.2% in December, and probably will drop below 2% YoY around September. The fiscal deficit is falling steadily and if anything may fall a little faster in the current (11/12) fiscal year than the OBR expect. Even with the roughly flat economy, the current fiscal plans should keep the deficit falling in the year ahead and a little lower in later years.

Figure 24. United Kingdom — Economic Forecasts, 2011F-2013F

					2011		2012				2013	
		2011F	2012F	2013F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	0.9%	0.2%	1.0%	0.5%	0.7%	0.4%	0.2%	-0.1%	0.1%	0.4%	0.9%
	SAAR				2.1	-0.8	0.4	-0.7	0.7	0.1	1.6	1.3
Domestic Demand	YoY	-0.7	-1.0	0.0	-1.2	-0.7	-0.2	-0.8	-1.7	-1.3	-0.8	-0.2
(Incl. Inventories)	SAAR				3.2	-3.4	-0.8	-2.0	-0.7	-1.6	1.1	0.4
Consumption	YoY	-0.6	0.5	1.6	-1.0	-0.4	-0.3	0.8	0.9	0.7	1.5	1.4
	SAAR				0.2	1.0	-0.8	2.7	0.8	0.4	2.2	2.4
Investment	YoY	-3.7	-7.5	-8.5	-1.8	-6.5	-4.2	-6.8	-9.3	-9.7	-10.9	-10.1
	SAAR				5.1	-18.1	0.5	-12.6	-5.8	-19.6	-4.6	-9.6
Exports	YoY	5.1	4.5	5.3	3.0	2.5	2.2	4.7	6.8	4.3	4.7	5.4
	SAAR				-3.0	15.2	3.8	3.4	5.0	5.1	5.4	6.0
Imports	YoY	1.5	0.4	2.3	-0.5	-1.0	0.5	0.8	0.5	-0.3	0.8	1.9
	SAAR				1.9	2.8	-0.2	-1.1	0.5	-0.2	3.9	3.4
Unemployment Rate	%	8.1	9.3	9.9	8.3	8.5	8.9	9.2	9.5	9.7	9.9	9.9
CPI Inflation	YoY	4.5	2.4	1.9	4.7	4.7	3.2	2.5	2.2	1.7	1.7	1.9
Merch. Trade	£bn	-97.3	-68.6	-50.2								
	% of GDP	-6.4	-4.4	-3.1								
Current Account	£bn	-36.3	-2.2	20.2								
	% of GDP	-2.4	-0.1	1.3								
PSNB	£bn FY	122.0	120.3	110.9								
	% of GDP	-8.0	-7.6	-6.8								
General Govt. Balance	% of GDP	-8.4	-8.1	-7.2								
Public Debt	% of GDP	81.8	87.2	92.0								
Gross Nonoil Trading Profits	YoY	13.2	8.6	6.7								

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

Switzerland

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

We are again cutting our GDP forecasts markedly, and now expect GDP to fall by 0.2% this year, staying weak in 2013 (forecasts last month were growth of 0.7% in 2012 and 0.9% in 2013). Both the Kof and PMI are in territory normally associated with negative growth, and we expect that GDP was flat or down slightly in Q4-11 and the same is likely for H1-2012. Deflation is likely to intensify near term and we expect that the price level at end-2016 will be little changed from the end-2010 level. The SNB will continue to firmly resist CHF appreciation, and they may seek to weaken the CHF through setting a new (depreciated) FX ceiling.

Sweden

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

Activity indicators have been mixed of late — hard data weakening, but sentiment data either levelling out or improving — but in our view this does not alter the overall picture of a marked growth slowdown this year. In February, the key policy rate was cut by another 25bp to 1.50% and the new conditional interest rate path signals no additional easing ahead. However, we expect that continued downgrades to the Riksbank's growth outlook will justify further near-term easing, and confirm our repo rate forecast of 1.0% by mid-year.

Denmark

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

GDP growth turned negative in 3Q and this probably marks the start of a prolonged period of limited economic expansion. With an extra DKK 30bn in revenue from pension taxes (amid surprisingly high returns on equity and bond investments), the government probably will be able to keep its budget deficit within the 3% of GDP target in 2011. To fend off pressures on the DKK, the DNB has cut rates deeper than the ECB. If, as we expect, the ECB cuts further and the DKK remains firm, the DNB will probably continue to cut as well.

Norway

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

The economy lost momentum in late-2011, reflecting softer private consumption and weaker non-oil exports. Thanks to the stabilizing effect that the petroleum industry has on the Norwegian economy, we continue to expect decent growth ahead. The Norges Bank cut by a larger-than-expected 50bp to 1.75% in Dec-11 and, against a backdrop of probable EMU recession plus additional ECB policy easing, the Norges Bank might decide to cut again. Domestic conditions, however, do not warrant lower key rates and continued low rates could fuel a housing bubble.

Figure 25. Switzerland, Sweden, Denmark and Norway — Economic Forecasts, 2011-2013F

		Switzerland			Sweden			Denmark			Norway		
		2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	1.8%	-0.2%	-0.1%	4.5%	0.5%	1.9%	1.0%	0.9%	1.2%	2.7%	2.5%	2.9%
Final Domestic Demand	YoY	1.5	0.2	-0.8	2.4	0.3	1.8	-0.5	1.0	1.0	3.2	2.6	2.9
Public Consumption	YoY	1.5	1.7	1.2	1.8	0.6	1.1	-0.5	0.8	0.1	1.6	2.3	2.2
Private Consumption	YoY	0.8	0.2	0.5	1.3	0.6	2.0	-0.6	0.8	1.2	2.3	2.0	2.4
Investment (Ex Stocks)	YoY	3.4	-0.5	-5.1	6.2	-0.6	2.5	-0.2	2.2	2.1	8.4	4.6	5.4
Exports	YoY	3.4	-1.5	-0.4	8.9	0.8	3.9	7.4	0.1	2.2	1.2	2.4	4.8
Imports	YoY	1.9	-1.6	-1.7	6.4	0.6	4.1	5.7	0.8	2.0	1.9	3.0	3.5
CPI (Average)	YoY	0.2	-1.2	-1.3	2.9	1.2	1.9	2.7	2.0	1.4	1.3	1.9	2.2
Unemployment Rate	%	3.1	3.5	4.4	7.5	7.8	8.0	7.5	7.7	7.4	3.3	3.4	3.3
Current Account	% of GDP	14.5	14.1	14.6	7.4	7.7	8.0	6.7	5.7	5.5	14.0	14.3	14.9
General Govt Balance	% of GDP	0.6	-0.2	-1.0	0.1	-0.4	-0.2	-2.5	-5.2	-3.9	12.0	12.5	13.5
General Govt Debt	% of GDP	53	52	52	36.3	35.9	34.8	44.6	48.6	51.2	NA	NA	NA

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

Canada

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

The Canadian expansion persists despite immense external pressures and lingering uncertainties globally. Stronger-than-expected Canadian and US economic activity, as well as heartening inroads towards containment of the EA crisis, have brightened Canada's near-term outlook. Nonetheless, we maintain our anticipation of lackluster growth over the medium term amid moderating foreign and domestic demand.

The European recession; deceleration of Asian growth to more sustainable levels; US fiscal consolidation and household deleveraging; and the strong Canadian dollar will weigh on Canadian exports. Internally, a less robust capex revival; smaller government; and softer consumer spending amid weakening labor markets and mounting debt, should dampen domestic demand.

Risks remain two-sided. Contagion and reduced risk appetite stemming from the EA sovereign debt and banking crises are the premier threat to the outlook. Other downside risks include the possibility of extremely weak US demand amid fiscal restraint; and Canadian consumer retrenchment under the weight of massive debt obligations and/or on account of a disorderly unwind in housing market activity.

Meanwhile, upside risks include faster-than-expected EM growth and higher global commodity price inflation; above-forecast US activity; and debt-driven Canadian consumer spending. The potential for policy missteps in Asia as governments and central banks soften the landing; and political tension among oil exporting nations in the Middle East and Africa are reemerging risks to the inflation outlook.

Markets have abandoned expectations of additional monetary policy easing on unshaken economic fundamentals and above-target inflation. Nonetheless, the BoC likely will still keep rates extraordinarily low this year to lean against headwinds.

Figure 26. Canada — Economic Forecast, 2011F-2013F

					2011		2012				2013	
		2011F	2012F	2013F	3Q	4QF	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	2.4%	1.9%	2.3%	2.4%	2.1%	1.7%	2.2%	1.9%	2.0%	2.1%	2.2%
	SAAR				3.5	2.0	1.8	1.5	2.2	2.6	1.9	2.2
Final Domestic Demand	YoY	2.9	2.0	2.6	2.6	2.1	2.3	1.8	2.1	2.1	2.2	2.6
	SAAR				0.9	2.7	2.3	1.1	2.2	2.7	2.9	2.7
Private Consumption	YoY	2.0	2.1	2.3	1.9	1.5	2.2	1.9	2.2	2.1	2.1	2.4
	SAAR				1.2	2.8	2.6	1.1	2.3	2.5	2.4	2.4
Government Spending	YoY	1.1	-0.3	0.7	0.8	-0.6	-0.4	-0.6	-0.5	0.3	0.5	0.7
	SAAR				-0.1	-2.2	0.0	0.0	0.2	1.0	0.8	0.8
Private Fixed Investment	YoY	8.4	4.2	5.7	7.3	6.7	5.3	3.5	4.1	4.0	4.7	5.6
	SAAR				1.6	5.8	4.4	2.3	4.1	5.4	7.0	5.8
Exports	YoY	4.6	4.7	3.4	5.5	4.9	4.2	6.8	4.3	3.8	3.3	3.2
	SAAR				14.4	6.4	3.6	3.0	4.2	4.3	1.5	2.9
Imports	YoY	6.3	2.8	4.5	4.4	4.6	3.7	0.9	2.7	3.7	3.7	4.4
	SAAR				-3.2	0.5	4.5	2.0	4.0	4.5	4.5	4.5
CPI	YoY	2.9	2.0	1.8	3.0	2.7	2.4	2.0	1.8	1.7	1.7	1.3
Core CPI	YoY	1.7	1.9	2.0	1.9	2.0	2.1	2.0	1.9	1.8	1.9	2.0
Unemployment Rate	%	7.5	7.3	7.0	7.3	7.5	7.6	7.4	7.2	7.3	7.3	7.1
Current Account Balance	C$bn	-48.4	-48.4	-47.4	-48.5	-39.3	-46.7	-45.7	-49.4	-51.7	-46.3	-49.3
	% of GDP	-2.8	-2.7	-2.6	-2.8	-2.3	-2.7	-2.6	-2.8	-2.9	-2.6	-2.7
Net Exports (Pct. Contrib.)		-1.2	0.4	-0.8	5.3	1.9	-0.7	0.2	-0.3	-0.5	-1.5	-1.0
Inventories (Pct. Contrib.)		0.2	-0.4	0.2	-2.6	-1.6	0.0	0.2	0.2	0.1	0.3	0.3
Budget Balance (Fiscal Year)	% of GDP	-1.8	-1.5	-0.9								
Federal Budget Debt	% of GDP	34.0	34.3	33.9								
General Govt. Debt	% of GDP	79.0	79.2	78.6								

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

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

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

Australia

Following reductions in our economic growth forecasts last month, the outlook has steadied and we expect close to trend growth in 2012. The main surprise in recent weeks was the decision by the RBA to leave the cash rate unchanged at 4.25% rather than to cut, although that was vindicated by the stronger-than-expected rise in employment during January, with the unemployment rate dropping to 5.1%. The strength in capital spending by mining and energy companies appears to be offsetting weakness in other sectors affected by the high AUD and consumer caution. But given the disappointing company profit reporting season so far we expect more companies will pursue cost cutting programmes, likely pushing up the unemployment rate moderately. This would open the door for a final rate cut by the RBA before mid year, particularly if developments in Europe take another turn towards risk aversion, resulting in higher funding costs for banks.

New Zealand

An improvement in consumer expenditure at the end of 2011 looks to have been sustained in January. Another encouraging sign for the economy is a record high milk export result for December from Fonterra, the organisation that represents the vast majority of dairy farmers. However, a fall in house prices, decline in leading indicators for employment and business activity and potential pay-back in transport, services and manufacturing activity in the Q4 GDP report following the end of the Rugby World Cup argue against any significant upside risk to the outlook. Employment intentions, incomes and financial conditions need to improve before we change our view. Indeed, risks remain skewed to the downside because any more seismic activity in Christchurch would further delay reconstruction efforts. In this environment, the OCR should remain at 2.50% for the remainder of 2012.

Figure 27. Australia and New Zealand — Economic Forecast, 2011F-2013F

	Australia			New Zealand		
	2011F	2012F	2013F	2011F	2012F	2013F
Real GDP[a]	1.9%	3.4%	3.8%	1.4%	2.6%	2.6%
Real GDP (4Q versus 4Q)	2.3	3.7	3.7	1.9	3.1	2.2
Real Final Domestic Demand	4.0	4.8	4.3	2.3	3.1	3.3
Consumption	3.6	3.4	3.0	1.6	2.9	2.1
Govt. Current & Capital Spending[b]	-0.4	1.9	4.0	3.2	1.6	1.5
Housing Investment	-1.9	3.6	5.8	-15.7	13.9	23.5
Business Investment[c]	16.2	14.1	8.2	6.8	3.6	5.5
Exports of Goods & Services	-1.7	11.5	8.6	3.6	1.5	3.3
Imports of Goods & Services	11.5	11.4	8.7	4.3	3.7	5.2
CPI	3.4	2.2	3.1	4.1	2.1	2.3
CPI (4Q versus 4Q)	3.1	3.2	3.3	1.8	2.2	2.3
Unemployment	5.1	5.1	4.9	6.3	6.2	5.5
Merch. Trade, BOP (Local Currency, bn)	30.3	19.8	-0.1	4.1	3.4	-0.1
Current Account, (Local Currency, bn)	-31.5	-45.5	-80.6	-7.9	-11.1	-15.8
Percent of GDP	-2.2	-3.0	-5.0	-3.9	-5.3	-7.2
Budget Balance[d] (Local Currency, bn)	-47.7	-37.1	1.5	-18.4	-12.1	-5.6
Percent of GDP	-3.4	-2.5	0.1	-9.2	-5.8	-2.6
General Govt. Debt (% of GDP)[e]	5.9	8.9	8.5	20.0	26.3	29.4
Gross Trading Profits[f]	6.2	5.0	6.5	1.4	2.6	2.6

Source: Citi Investment Research and Analysis

BOP Balance of payments basis. CPI Consumer Price Index. F Citigroup forecast. NA Not available. [a]Averaged-based GDP in Australia and New Zealand. [b] In New Zealand excludes capital spending. [c] In New Zealand includes government capital spending. [d] Fiscal year ending June. Australia's underlying cash balance. [e]Australia and New Zealand Budget definition and forecasts. [f]Company gross operating surplus. Source: Citi Investment Research and Analysis.

China

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

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

Daxue Wang
(8621) 2896 6584
daxue.wang@citi.com

There are growing signs of a sharp slowdown despite positive GDP and PMI readings — Property investment growth slumped from 20% YoY in Nov to 12% in Dec. The Jan data, while distorted by holiday effects, pointed to further weakness. Export and import growth both turned negative, an indication of weakening external and domestic demand. M2 grew by only 12.4% YoY and M1 grew by 3.1% YoY in Jan, both registering the slowest pace since 2001. RMB loans increased by only 738bn (relative to expected 1tn) during the month and total social financing almost halved compared with last Jan, reflecting rapidly weakening demand. External headwinds coincide with accelerating property market correction, which could cause growth to slow sharply to 8% YoY or lower in Q1.

Inflation is expected to be subdued, creating conditions for policy easing — Inflation rebounded to 4.5% YoY in Jan, reflecting mostly holiday effects, and recent information indicates inflation may slide back to 4% YoY or even lower in Feb. Barring geopolitical tensions or exceptional natural disasters, inflationary pressure is likely to be contained during the year, benefiting from negative output gap, expected stable commodity prices, and easing food inflation. Inflation may dip below 3% briefly at the middle of the year, with average inflation falling from 5.4% in 2011 to about 3.5% in 2012.

The Feb RRR cut confirms policy easing to counter growth weakness — The move was widely expected to take place in Jan, but was delayed due to lack of consensus on the pace of economic slowdown and the impact of liquidity easing in the advanced economies—including the LTRO by the ECB. The recent string of weak data appears to have cleared the way for further easing. We believe the government is de facto targeting above 8% growth for 2012, and threefold policy easing may be introduced to reduce downside risks. We expect at least another 3 RRR cuts to achieve the PBOC broad money growth target of 14%, assuming FX inflow this year will be less than half the level of last year. We no longer anticipate a benchmark interest rate hike, but a rate cut is also premature during the year. RMB appreciation against the dollar may slow to 1.5% in 2012. Fiscal policy could become more active following the approval of the budget (we forecast budget deficit of 2.5% of GDP with actual implementation depending on growth risks) in March. The property tightening measures, including the purchase restriction, could be relaxed by the middle of the year.

Figure 28. China — Economic Forecasts, 2011F-2013F

					2011		2012				2013	
		2011	2012F	2013F	3Q	4Q	1QF	2QF	3QF	4QF	1QF	2QF
Real GDP	YoY	9.2%	8.4%	8.6%	9.1%	8.9%	8.0%	8.2%	8.8%	8.6%	8.7%	9.3%
Real Final Domestic Demand	YoY	10.4	9.3	9.2								
Consumption	YoY	10.0	9.7	9.7								
Fixed Capital Formation	YoY	10.8	8.8	8.8								
Industrial Production	YoY	13.9	11.6	12.2	13.8	12.8	11.6	11.0	11.9	12.0	12.3	12.5
Exports	YoY	20.3	5.7	13.0	20.6	14.3	1.7	1.4	7.3	11.1	10.0	12.0
Imports	YoY	24.8	8.9	16.0	24.8	20.1	-2.5	5.7	14.8	15.9	13.0	15.0
Merchandise Trade Balance	$bn	155.1	108.0	65.3	62.7	48.2	-14.7	28.7	33.1	31.5	4.4	18.6
FX Reserves	$bn	3181	3342	3508	3,202	3,181	3,196	3,245	3,298	3,342	3,372	3,415
Current Account	% of GDP	2.8	2.0	1.5								
Fiscal Balance	% of GDP	-1.1	-2.0	-1.5								
General Govt. Debt	% of GDP	15.4	15.9	15.6								
Urban Unemployment Rate	%	4.1	4.2	4.1	4.1	4.2	4.2	4.2	4.2	4.2	4.1	4.1
CPI	YoY	5.4	3.5	3.9	6.3	4.6	3.9	3.4	3.0	3.7	4.0	3.9
Exchange Rate (end period)	CNY/$	6.29	6.20	6.01	6.38	6.29	6.29	6.27	6.24	6.20	6.15	6.10
1-Yr Deposit Rate (end period)	%	3.50	3.50	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75

Note: F Citi forecast. E Citi estimate. YoY Year-to-year percent change. SAAR Seasonally adjusted annual rate. *Based on official data. The ratio was roughly 50% in 2010 if the debt of Ministry of Railway and local government debt as audited by the National Auditing Office are included. Sources: Haver Analytics and Citi Investment Research and Analysis

India

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

Trends in growth have seen a clear deceleration, with the government's advance estimates pegging headline GDP at 6.9% in FY12, from 8.4% in FY11. However, comparing full-year trends vs 1HFY12 data indicates that the deceleration does appear to have troughed. This bottoming out is most visible in the investment data where fixed capital formation rose a mere 3.5% in 1HFY12 (with 2QFY12 trends in the red) vs the full year at 5.6%. Nonetheless, we reiterate that India needs concerted policy measures at all levels to support growth at 7% levels.

Inflation as measured by the WPI has come off ~200bps from 9%+ levels to 6.6% as per the latest reading (for Jan). More importantly, 'non-food manufactured product inflation' which is the RBI's proxy for core inflation, has finally eased to 6.7% from the sticky 7-8% range. Going forward, a favorable base effect would likely result in inflation remaining in the 6.5-7.6% range in the coming months. This supports the case for easing — we expect rate cuts to the tune of 100bps in 2012. However, given that the RBI has said that the quantum and timing of rate cuts will be dependent on fiscal consolidation, we expect the repo rate to be cut post the budget (due 16 March), i.e. the RBI's 17 April policy meeting. Given tight liquidity conditions, the odds favor continued recourse to CRR cuts at the 15 March policy meeting.

On the fiscal front, while the FY12 deficit could come in the 5.6-5.8% of GDP range (versus budgeted estimates of 4.6%); the FY13 Budget will be closely watched for steps towards (a) fiscal consolidation — revenue raising and subsidy containment and (b) structural reforms, particularly in the infra/agri space. However, two pressure points for FY13 include: (i) Right to Food, and (ii) SEB losses. This is likely to result in the deficits coming in the 5.5%-5.8% range vs. the proposed path of 4.6% in FY12 and 4.1% in FY13, with combined deficits thus trending back to the 8.5-9% range.

Trends in the currency are likely to remain volatile through 2012 and depend on both domestic and global factors. While the unit could have an appreciation bias if India attracts dollar inflows to meet its external financing requirements (current account deficit + short-term debt), a risk-off environment or oil trending higher could result in rupee weakness.

Figure 29. India — Economic Forecasts, FY2011/12-2013/4F

		FY 11/12F	FY 12/13F	FY 13/14F
Real GDP	YoY	6.9%	7.0%	7.5%
Final Domestic Demand	YoY	5.9	6.3	7.1
Private Consumption	YoY	6.5	6.5	6.7
Fixed Investment	YoY	5.6	6.5	8.0
Exports	YoY	14.3	13.5	15.0
Imports	YoY	17.5	8.3	10.8
Wholesale Price Index*	YoY	9.0	6.7	6.5
Consumer Price Index	YoY	8.0	7.0	5.0
Unemployment Rate	%	NA	NA	NA
Current Account	US$ bn	-64.2	-73.6	-76.8
	% of GDP	-3.5	-3.6	-3.2
Consolidated Fiscal Balance	% of GDP	-8.3	-8.0	-7.5
Centre Fiscal Balance	% of GDP	-5.8	-5.5	-5.0
US Dollar Exchange Rate	Average	48.1	49.3	49.5

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

Korea

Jaechul Chang
+82 2 3705 0727
jaechul.chang@citi.com

The sharp contraction of exports and slowdown of retail sales growth in January give clear signs of economic downturn. Exports fell 7.0%YoY in January, with exports to the US down 0.3%YoY, exports to the EU down 37.9%, and exports to China down 2.3%. January department store sales fell by 4.1%YoY after rising by 11.0% in December, and discount stores' sales growth slowed to 2.7%YoY from 3.7% in December. We expect export growth to reverse to a positive in Feb due to base effect (as the Lunar New Year holidays were in February last year), but to be limited by weak overseas demand, especially from Europe. Consumption and facilities investment will probably remain weak against the backdrop of deteriorating consumer sentiment and slowing exports. We expect real GDP growth to slow from 3.4%YoY in 4Q11 to 3.0% in 1Q12 and remain around 3% in 2Q. The headline inflation rate fell to 3.4%YoY in January, 0.8%p lower than December, led by stabilization of industrial goods prices and base effects. Monetary easing seems unlikely as the MoM change in the CPI inflation picked up to 0.5% in Jan from 0.4% in Dec. Moreover, the average for inflation expectations among the general public edged up to 4.1%YoY in January from 4.0% in December. We maintain our view of no rate change this year.

Indonesia

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

The economy grew at 6.5% YoY in 4Q11, marginally higher than in 3Q. Domestic demand growth accelerated in both consumption and investments, despite exports softening. We continue to expect the slow-down this year to be mild (our FY12 GDP forecast: 6.3%). Despite resilient growth, BI further cut rates in January with the FasBI rate now at 3.75%, reflecting lower-than-expected FY12 inflation rates. Base effects may start pushing up the YoY CPI readings starting this month; and the President recently issued a presidential regulation affirming the plan to ration subsidized fuel, while also not ruling out a price hike. However BI's statements remain dovish and there is risk that BI could slip-in another 25bps cut. We are thus revising down our YE12 FasBI rate forecast to 3.5%. Meanwhile FDI inflows grew over 30% YoY in 2011. However, the current account fell to deficit (-0.1% of GDP) in 4Q11, and BI's strong monetary stimulus risks worsening this. We think this is a point of weakness for the IDR, and thus we do not expect a sustained appreciation despite the recent rebound in bond market inflows

Figure 30. Korea and Indonesia — Economic Forecasts, 2011F-2013F

		Korea			Indonesia		
		2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	3.6%	3.7%	4.4%	6.5%	6.3%	6.5%
Final Domestic Demand	YoY	1.0	1.6	4.3	5.7	7.7	7.4
Private Consumption	YoY	2.2	1.0	3.2	4.7	4.9	5.4
Fixed Investment	YoY	-2.1	2.5	5.3	8.8	11.1	10.8
Exports	YoY	10.0	4.4	8.3	13.6	7.6	9.5
Imports	YoY	6.6	1.4	6.8	13.3	11.3	10.5
Consumer Price Index	YoY	4.0	3.3	3.1	5.4	4.9	5.2
Unemployment Rate	%	3.4	3.3	3.2	6.6	6.3	6.0
Current Account	US$ bn	27.7	13.4	12.9	2.1	-2.7	-5.1
	% of GDP	2.5	1.1	1.0	0.2	-0.3	-0.5
Fiscal Balance	% of GDP	0.5	0.7	1.2	-1.2	-1.0	-0.7
US Dollar Exchange Rate	Average	1108	1118	1053	8768	9138	8975

Sources: Haver Analytics and Citi Investment Research and Analysis

Hong Kong

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

Our recently-lowered 2012 GDP forecast (3% YoY) is at the high end of the official forecast range, as we factor in possible Government stimulus measures. The Budget will be administering HK$80bn of fiscal measures in FY2012/13, and these could stimulate GDP growth by 1.5ppt. Inflation is likely to moderate after January (post Chinese New Year) and on base effects. The limelight remains on the Chief Executive election as the running candidates flesh out their manifestos, which have long-term implications for HK's development. Liquidity inflows have lifted the HKD towards the strong end of its trading band. The positive backdrop for risk assets probably will support the HKD near term, although it could weaken if the sovereign debt crisis worsens again. The 3M HIBOR is playing catch up with its US counterpart's rise, while 5Y EFNs should rise very gradually in our forecast horizon.

Singapore

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

With the sizeable upward revision in 4Q GDP, the odds of technical recession in 1Q12 have been significantly reduced. Quarterly job creation in 4Q11 is the strongest in two years, domestic activity has remained resilient, and the bottoming of manufactured exports should give further support. Base effects will ensure headline inflation falls to the 4-4.5% range in 1Q11, and further to 2% by 4Q11, but core inflation could breach the MAS's forecast of 1.5-2% in 2012. We thus do not expect the MAS to ease policy in April. The Budget's focus on social protection for lower income groups is at the expense of small businesses in the near term; tighter foreign worker quotas may lead to a worsening of the growth-inflation trade off. With private developer home sales rebounding strongly in Jan, further measures to curb investment demand for properties (including harsher ABSD) cannot be ruled out.

Taiwan

Cheng Cheng-Mount
+886 (2) 8726-9096
chengmount.cheng@citi.com

President Ma won the re-election and quickly reshuffled the cabinet. The new cabinet will focus on stabilizing economic growth and narrowing income gaps. We expect the key medium-term policies will be tax reform, measures to cool housing, unwinding the government's low-utility price policy and financial reform. Meanwhile growth momentum appears to be slowing further in 1Q12 as exports fell sharply in January. CPI inflation, by contrast, rose to a 39-month high, although this may be distorted by the relatively early Chinese New Year. The CBC expressed concerns on higher inflation risks, and we expect the CBC will likely stay put on next monetary policy decision in March. Recent net inflows from foreign portfolio capital have added liquidity to local financial markets, driven down interest rates and thus reduced the need for a rate cut.

Figure 31. Hong Kong, Singapore and Taiwan — Economic Forecasts, 2011F-2013F

		Hong Kong			Singapore			Taiwan		
		2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	5.0%	3.0%	4.2%	4.9%	3.0%	5.0%	4.0%	3.7%	4.2%
Final Domestic Demand	YoY	7.5	3.3	1.9	3.4	2.6	5.3	0.8	1.6	3.0
Private Consumption	YoY	8.4	3.1	2.0	5.3	2.3	5.1	3.1	3.1	3.3
Fixed Investment	YoY	7.3	4.0	2.0	1.4	2.7	6.9	-6.1	-1.9	4.3
Exports	YoY	4.2	2.8	7.0	2.4	3.1	6.4	4.4	4.5	6.0
Imports	YoY	4.6	2.6	6.1	2.6	3.8	6.7	-0.8	0.9	5.1
CPI	YoY	5.3	4.0	2.9	5.3	3.0	3.1	1.4	1.4	1.7
Unemployment Rate	%	3.4	3.7	3.6	2.1	2.3	2.0	4.4	4.3	4.2
Current Account	US$ bn	19.6	34.3	34.1	43.9	42.3	41.2	41.6	42.5	45.4
	% of GDP	8.1	13.1	12.2	16.5	15.0	13.0	8.8	8.7	8.4
Fiscal Balance	% of GDP	3.5	0.8	0.7	1.5	1.0	1.0	-2.5	-2.0	-1.8
US Dollar Exchange Rate	Average	7.78	7.76	7.75	1.26	1.26	1.21	29.47	29.55	28.43

Sources: Haver Analytics and Citi Investment Research and Analysis

Russia

Elina Ribakova
+7 495 643 1497
elina.ribakova@citi.com

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

Russia is likely to enjoy growth of about 3.5% in 2012, if oil stays around US$110 per barrel, led by consumption. We expect inflation to accelerate back to about 6.5-7% by year-end from around 5% in 1H as a result of postponed state-regulated price adjustments. The CBR estimated most of the US$100bn 2011 current account (CA) surplus was lost in capital outflows. We think a large negative capital account reflects political uncertainty and lack of external borrowing owing to both lack of investment projects and poor access to international markets. The capital account remained negative by at least US$8bn in January (despite a reversal in portfolio flows) and we do not expect these outflows to slow substantially before the March 4 presidential elections. Under our base case (oil price at US$110/bbl on average in 2012), we expect the CA surplus to fall to about US$60-70bn in 2012, mainly absorbed by continuous capital outflows. While tight liquidity and still reasonable BoP outlook are supportive for the ruble in the short run, we see few fundamental reasons for strengthening beyond the current level. We expect the ruble basket to return to 36-37 at end-2012. In the short term we expect the CBR to continue narrowing the interest rate corridor and to increase the volume of refinancing if required to keep rates under 6%. Cuts in the repo rate are likely to be delayed until core inflation decelerates and/or risks to economic growth intensify.

Turkey

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

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

Turkish assets — the lira in particular — have benefited from the recent improvement in global risk appetite. Although the improvement in the global backdrop, if sustained, would reduce the probability of a capital account shock, it would make policymakers' job more difficult through complicating the much-needed external adjustment process, among other things. Given the authorities' apparent reluctance to forgo growth and pursue tighter policies, this is not a trivial concern. On the monetary policy front, the new Inflation Report confirmed that the CBT is likely to stick with its flexible policy. In our view, the Bank's inclination to let the currency appreciate and its pro-growth approach don't bode well for narrowing the country's wide current account deficit. By the same token, fiscal policy, which has been accommodative so far, is unlikely to become tighter this year. Where do we go from here? We recognize that Turkish assets are likely to benefit from investors' enthusiasm for EM countries and their search for yield. However, in view of our expectations about the likely policy reaction to stronger-than-expected inflows to Turkey, we argue that the country's macroeconomic backdrop is unlikely to accommodate further appreciation of Turkish assets without leading to valuation concerns among investors.

Figure 32. Russia and Turkey — Economic Forecasts, 2011F-2013F

		Russia			Turkey		
		2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	4.3%	3.5%	4.0%	8.2%	2.5%	4.3%
Final Domestic Demand	YoY	5.1	5.2	5.5	10.3	1.6	4.5
Private Consumption	YoY	6.3	5.3	5.3	7.9	1.0	4.5
Fixed Investment	YoY	6.0	7.0	9.0	18.2	2.3	5.0
Exports	YoY	1.1	2.0	2.7	6.6	1.8	5.5
Imports	YoY	21.0	3.5	5.8	13.5	-1.4	6.2
CPI	YoY	8.4	5.5	6.8	6.5	9.5	7.0
Unemployment Rate	%	6.6	7.5	7.5	10.0	10.2	10.2
Current Account	US$ bn	101.1	62.3	12.0	-77.1	-67.4	-69.9
	% of GDP	5.5	3.2	0.6	-10.2	-8.4	-7.9
Fiscal Balance	% of GDP	0.8	-0.3	-0.5	-1.3	-2.2	-2.5
US Dollar Exchange Rate	Average	29.4	30.9	32.7	1.68	1.95	1.81

Sources: Haver Analytics and Citi Investment Research and Analysis

Hungary

Eszter Gargyan
+36 (1) 374-5573
eszter.gargyan@citi.com

Political noise is likely to re-emerge in the coming weeks as the government may take a step forward to fulfil the EC's preconditions in order to start official loan negotiations with the IMF and the EU. We expect official talks to start in March, but they are only likely to conclude in late 2Q12. International lenders are likely to require heavily front-loaded conditionality focusing on long term fiscal sustainability and competitiveness constraints to approve the loan facility. Asset prices have firmed on the back of improved prospects of a new IMF deal in the improved external environment, which led to a halt in rate hikes in January. Given the upside surprise in the January CPI (5.5%YoY) — driven by tax and administrative price hikes, currency weakening and likely rising labour costs — we have increased our annual CPI forecast from 5.1% to 5.3% in 2012. The upbeat 4Q11 GDP outcome (1.4% YoY) and the modest improvement in PMIs suggest Hungary may post close to zero growth in 2012. Given the rising CPI outlook and easing recession risks, we see a limited chance that rate cuts will start any time soon, even if an IMF agreement were to be put in place. We expect the base rate to remain on hold at 7.00% until 4Q12, with gradual easing thereafter if the global environment remains supportive.

Poland

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

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

In line with trends observed in some other European countries, Poland saw a series of better-than-expected data, including a rise in the January PMI above the key 50 threshold. Economic growth in 2011 reached 4.3%YoY thanks to a substantial acceleration in fixed investment in 4Q on the back of good weather. However, a more severe winter in 1Q is likely to weigh on the realization of infrastructure projects, leading to a more substantial slowdown. A worrying signal is the further weakness of the labour market and a significant deceleration in consumer spending, a trend that is likely to be maintained in the near term. Taking into account the somewhat better-than-expected monthly data, we are raising our 2012 GDP growth forecast to 2.1% YoY (from 1.9% previously). Nevertheless, our forecast still remains below the central bank projection of 3% YoY. The Monetary Policy Council continues to stick to its hawkish rhetoric and highlights the fact inflation is running well above the target of 2.5%. We expect central bankers to keep interest rates on hold until mid-2012 and then to cut rates gradually in 2H, in response to slower economic growth, a weak labour market and the return of inflation to the CPI target.

Figure 33. Hungary and Poland — Economic Forecasts, 2011-2013F

		Hungary			Poland		
		2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	1.7%	-0.1%	1.4%	4.3%	2.1%	2.8%
Final Domestic Demand	YoY	-1.1	-2.5	-1.3	3.6	1.8	2.8
Private Consumption	YoY	-0.7	-2.5	-1.5	3.1	2.1	3.0
Fixed Investment	YoY	-5.0	-3.0	0.5	8.7	2.5	2.2
Exports	YoY	8.8	4.0	6.4	5.9	0.8	8.5
Imports	YoY	6.5	2.2	4.7	4.8	-1.1	8.2
CPI	YoY	3.9	5.3	3.4	4.2	3.5	2.6
Unemployment Rate	%	11.6	11.8	11.0	12.4	12.9	11.7
Current Account	US$ bn	2.4	2.1	2.5	-21.3	-15.3	-21.2
	% of GDP	2.0	1.6	1.8	-4.1	-3.0	-4.0
Fiscal Balance	% of GDP	3.5	-3.2	-3.0	-5.1	-3.4	-2.4
US Dollar Exchange Rate	Average	201	216	220	3.0	3.2	3.2

Sources: Haver Analytics and Citi Investment Research and Analysis

Czech Republic

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

We have slightly raised our 2012 GDP forecast by 0.1pp to -0.4%YoY, after 1.7% growth in 2011E. Despite the drop in 4Q11 GDP (0.5% YoY from 1.2% in 3Q11), foreign demand prospects have improved somewhat compared to our previous forecast. However, confidence indicators, though slightly better after a gloomy December, still signal a further GDP slowdown ahead. This is likely to be intensified by a drop in construction activity in 1Q12 owing to worse weather conditions (in contrast to 4Q11) and a tighter fiscal path. Neither private consumption nor investment is likely to support the economy ahead. We think our forecast for a mild drop in GDP (below MinFin's forecast of 0.2% growth) is neutral for public finances because we expect a commitment for additional savings, and interest rate developments also suggest lower interest expenses than the Budget plans. Our GDP forecast is below the CNB's expectation of flat GDP growth in 2012. Hence, we do not think the CNB will raise its policy rate, even though we expect CPI inflation will accelerate above the CNB target in 1Q12 and look for a weaker koruna over the 1-year horizon. If the koruna appreciates more than our forecast, towards 24.4 vs EUR in the next three months, the CNB could cut in May or June, particularly if the ECB prepares the market for further easing.

Romania

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

The markets displayed little reaction to the unexpected resignation of PM Boc following days of street protests against his government. The new government, led by Mihai Razvan, passed a confidence vote on February 9, as the opposition continues to push for early elections. In our view, the existence of the EU-IMF supported program has played an important role in containing the potential adverse impact on market sentiment of this surprising development. In fact, Mr. Boc's resignation took place against the backdrop of complimentary comments by senior officials from the EU and the IMF, stating that the program was on track and all IMF quantitative performance criteria for end-December were met. Looking ahead, we believe that the presence of an IMF-EU supported program is likely to contain uncertainty through two main channels. First, it reduces the likelihood of extra pre-election spending. Second, it decreases the probability of significant post-election deviations from the current economic program, irrespective of the composition of the next government. This backdrop, coupled with January's record low inflation, raises the probability of a 25bp rate cut at the March Board meeting.

Figure 34. Czech Republic and Romania — Economic Forecasts, 2011-2013F

		Czech Republic			Romania		
		2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	1.7%	-0.4%	2.0%	2.5%	1.7%	3.1%
Final Domestic Demand	YoY	-0.9	-0.1	0.6	1.2	1.1	2.9
Private Consumption	YoY	-0.2	-0.4	0.4	1.0	1.0	2.9
Fixed Investment	YoY	-0.5	-0.7	1.6	4.0	1.5	3.5
Exports	YoY	11.5	1.1	5.8	13.0	5.4	4.2
Imports	YoY	9.2	-1.3	5.3	10.8	4.8	3.2
CPI	YoY	1.9	3.1	1.4	5.8	2.6	2.0
Unemployment Rate	%	6.9	9.3	9.5	5.4	5.2	5.2
Current Account	US$ bn	-4.9	-6.2	-6.9	-7.9	-8.0	-9.0
	% of GDP	-2.3	-3.2	-3.4	-4.1	-4.5	-4.7
Fiscal Balance	% of GDP	-3.7	-3.7	-3.1	-4.4	-2.0	-2.0
US Dollar Exchange Rate	Average	17.7	19.2	19.4	3.0	3.0	3.0

Sources: Haver Analytics and Citi Investment Research and Analysis

Brazil

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

We estimate 4Q11 GDP rose about 0.3% QoQ, implying 2011 annual expansion of 2.8%. Looking forward, our leading indicator and structural models point to a steady acceleration in growth, based on several monetary, credit and fiscal stimuli already applied in the economy, which support our 3.3% 2012 GDP growth forecast. We maintain our view that CPI inflation will reach about 5.3% at 2012 year-end, although we raise our 2013 year-end forecast to 5.5% (from 5.0% previously), given the narrower output gap ahead. This scenario should motivate the central bank to tighten monetary policy again during 2013 (with the Selic rate expected to reach 11%), after the expected near-term low of 9.5% in April this year. We maintain our optimistic view for the BRL, based on our more optimistic assessment (in relation to consensus) for trade balance/current account performance this year, backed by a less adverse global environment. In this sense, we see additional room for BRL appreciation ahead. Finally, given the government's announcement of the 2012 Budget Law, we now expect the public sector to reach a primary fiscal surplus close to the target of 3.1% of GDP this year, reinforcing the downward trend of net public debt in relation to GDP.

Mexico

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

We now believe that the deceleration in activity will be less severe than previously expected. Better US demand conditions now lead us to forecast manufacturing export growth of 10% this year, instead of 8% previously, and spillover effects to internal demand will probably lead to stronger private consumption. We thus are raising our GDP growth forecast for this year to 3.3% from 3.0% before. Accordingly, the output gap should reach positive territory in H2 and, along with the impact of a drought on farm prices, this reinforces our standing view of rising inflation. We continue to expect headline inflation will reach 3.8% YoY at end-2012, but also assume fewer risks of positive inflation surprises. The main variable that could affect inflation in this direction is FX, and indeed we have made a meaningful revision in our end-year forecast, to USD/MXN 12.70 from 13.40 previously. However, we assume a lower USD/MXN in the short term followed by a mild rebound. Accordingly, we think the dilemma Banxico will face in the second half — we forecast headline inflation peaking at 4.7% y/y in September — could intensify. We still call for the first 25bp hike to take place in 1Q13, but also believe that the risks of an earlier hike have risen.

Figure 35. Brazil and Mexico — Economic Forecasts, 2011F-2013F

		Brazil			Mexico		
		2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	2.9%	3.3%	4.5%	3.9%	3.3%	3.5%
Final Domestic Demand	YoY	3.9	3.7	5.2	4.8	3.9	4.2
Private Consumption	YoY	4.0	3.5	4.8	4.6	3.4	3.6
Fixed Investment	YoY	5.0	4.3	6.4	8.0	6.4	7.5
Exports	YoY	4.0	4.6	7.3	8.0	7.3	8.4
Imports	YoY	9.1	6.6	10.7	7.7	8.5	9.7
CPI	YoY	6.6	5.5	5.1	3.4	4.3	3.7
Unemployment Rate	%	6.1	6.3	6.5	5.2	5.2	5.3
Current Account	US$ bn	-48.6	-51.4	-65.4	-11.2	-24.7	-27.8
	% of GDP	-2.1	-2.1	-2.4	-1.0	-2.1	-2.1
Fiscal Balance	% of GDP	-2.7	-2.7	-2.9	-2.5	-2.2	-2.0
US Dollar Exchange Rate	Average	1.67	1.71	1.69	12.4	12.7	12.5

Sources: Haver Analytics and Citi Investment Research and Analysis

Argentina

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

Argentina still enjoys favorable international conditions characterized by high commodity prices and strong demand for its exports. The exposure of banks and nonbank corporates to external liabilities is limited. Fiscal problems, though rising, are manageable. And, thanks to the 2005 debt restructuring, the consolidated public debt is relatively low and not too onerous. The main problem of Argentina is a poor business environment, due to excessively interventionist policies, which encourages low investment and capital flight. The acceleration of capital flight and loss of FX reserves in H2-2011 led the government to impose strict controls not only on capital outflows, but also on imports. Import restrictions will likely have a heavy toll on potential growth in the medium and long term since 69% of imports are intermediate and capital goods. However, in the short term, the combination of higher domestic market protection, a closed capital account, and an expansionary monetary policy should continue to support growth in industrial production and construction. All in all, we expect non-official real GDP growth to decelerate from 5.7% in 2011 to 3% in 2012, but non-official inflation to remain high (25%). In the table below, we report our forecasts for the official data.

Venezuela

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

The presidential elections scheduled for October 7 remain the main event in Venezuela this year. With Mr. Capriles as the unified opposition candidate, we believe the gloves are off and we should expect an increase in direct attacks from Mr. Chávez's campaign. Nonetheless, Mr. Capriles has avoided this direct confrontation as in his view, and that of many political analysts, polarization helps Mr. Chávez in his goal of retaining power. It is important to note the opposition also face disadvantages that make campaigning harder. Among them, the most important is the disparity in available resources. In particular, we consider that an active fiscal policy by the incumbent government will improve the popularity of Mr. Chávez. This could make the race look like a David vs. Goliath fight. But, we expect the opposition will focus the campaign on topics associated with insecurity and the high cost of living, which are the most important issues for many Venezuelans and which could help it gain public support. At the same time, we expect to hear announcements regarding government debt issuance soon. In our view, the current record high levels of banks' excess reserves provide a leading indicator for debt issuance.

Figure 36. Argentina and Venezuela — Economic Forecasts, 2011-2013F

		Argentina			Venezuela		
		2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	9.4%	5.0%	5.0%	4.0%	4.0%	3.4%
Final Domestic Demand	YoY	12.7	5.6	5.4	6.6	3.5	1.8
Private Consumption	YoY	10.7	4.9	4.7	4.8	7.9	0.8
Fixed Investment	YoY	9.0	3.6	8.0	-2.6	-7.2	2.2
Exports	YoY	4.4	5.4	4.6	6.8	8.1	5.1
Imports	YoY	22.4	13.4	12.1	13.4	3.7	-0.9
CPI	YoY	9.8	9.6	12.2	27.0	26.3	28.0
Unemployment Rate	%	8.1	7.8	8.2	6.5	6.4	6.6
Current Account	US$ bn	1.8	1.5	1.1	31.2	31.6	36.6
	% of GDP	0.4	0.3	0.2	10.4	8.6	9.9
Fiscal Balance	% of GDP	-1.6	-2.0	-2.0	-5.0	-5.0	-4.0
US Dollar Exchange Rate	Average	4.2	5.3	6.0	4.3	4.3	6.5

Sources: Haver Analytics and Citi Investment Research and Analysis

Saudi Arabia

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

Saudi oil production remains strong, with January figures showing output of 9.7 million barrels per day, the highest sustained rate of production for at least five years. Sanctions imposed against Iran may result in greater production in the coming months, as Saudi seeks to stabilize oil markets by compensating for the loss of Iranian exports. Saudi Arabia has just under 2 mbpd in excess capacity. Our projections for Saudi are based on a fall in production of 5% in 2012 relative to 2011, in line with our view that weakening global demand presents downside risks to oil prices that will be managed through supply reductions. Iranian sanctions therefore pose significant upside risks to Saudi production and our projections. In our view, oil prices are likely to average US$110 per barrel in 2012, bringing in revenues similar to those seen in 2011, while expenditure will once again overshoot budget (although it will remain lower than 2011 levels due to the one-off nature of many such items). The net result is that we expect a budget surplus of around 11.5% in 2012. We believe growth in the non-oil economy will remain strong, around 7%, but overall growth will fall back owing to the projected scaling back in oil production of about 5% from 2011 levels. We continue to expect progress on passing of the mortgage law in 2012, which we believe will create a significant boost to the local housing sector and domestic demand. Meantime, inflation remains sticky. It was stable at 5.3% YoY in January, but we continue to expect demand-side pressure to pose a significant threat to price stability in the coming months.

United Arab Emirates

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

In Abu Dhabi, the long-running spending review carried out by the Emirate's Executive Council was concluded in January, with the green light being given to a number of large development projects, such as the Guggenheim and Louvre museums. The projects have been delayed by as much as three years, but the government's commitment to push ahead will provide a boost to confidence in the economy and to the various local government-related entities (GREs), in our view. In Dubai, the continued economic recovery is likely to run into headwinds in 2012 due to a softening in global economic growth. The Emirate's debt challenges received attention in December, but a statement by Sheikh Ahmed al Maktoum, head of Dubai's Supreme Fiscal Committee, that categorically excluded any plans to restructure debt in 2012 reinforces Dubai's willingness to support this year's three upcoming bond maturities, in our view. That said, we believe that 2013 and beyond represent a significant challenge.

Figure 37. Saudi Arabia and United Arab Emirates — Economic Forecasts, 2011F-2013F

		Saudi Arabia			United Arab Emirates		
		2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	6.8%	5.9%	6.5%	5.4%	0.5%	3.4%
Final Domestic Demand	YoY	9.9	7.8	7.9	3.1	3.5	3.5
Private Consumption	YoY	10.0	5.0	5.0	1.0	2.0	2.0
Fixed Investment	YoY	15.0	10.0	10.0	5.0	5.0	5.0
Exports	YoY	10.5	8.0	8.0	13.0	13.0	13.0
Imports	YoY	15.0	12.0	12.0	15.0	15.0	15.0
CPI	YoY	5.0	7.0	8.0	2.0	2.4	2.9
Current Account	US$ bn	154.3	143.6	160.9	14.9	3.5	5.7
	% of GDP	0.0	24.6	24.4	4.6	1.0	1.5
Fiscal Balance	% of GDP	13.7	16.5	12.6	-	-	-
US Dollar Exchange Rate	Average	3.8	3.8	3.8	3.7	3.7	3.7

Sources: Haver Analytics and Citi Investment Research and Analysis

Nigeria

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

The appointment of Ngozi Okonjo-Iweala as finance minister in 2011, alongside central bank governor, Lamido Sanusi, creates a respected economic team committed to more orthodox economic policies. The political battle to end the petrol price subsidy in January 2012 was, in many ways, a microcosm of the wider political battle within the political elite over the reform process. We think it represented a 'points victory' to the government and are now looking to see how quickly it can implement other structural reforms, led by those for the power sector and the oil industry and the formal establishment of the new sovereign wealth fund. Despite slow progress with reform and the ongoing political uncertainties in Nigeria, notably in the north due to the activities of Boko Haram, we still expect growth to remain robust in 2012-13, driven by strong activity in the south of the country. Meanwhile, the combination of improved fiscal discipline, clamping down on capital flight, higher interest rates and recovering oil production should also allow the central bank to maintain naira stability in 2012 unless there is a significant fall in the oil price.

South Africa

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

SA economic growth will probably remain subpar in 2012 with the output gap only beginning to close again in 2H12 and 2013 as growth accelerates back to nearer 4%. An unfavourable global environment and recent declines in commodity prices are delaying the cyclical recovery. Despite a weak housing sector growth and the erosion of household purchasing power by rising inflation, the ongoing monetary stimulus is supporting resilient consumer spending, while corporate finances are healthy and there are signs of an upturn in private investment. We expect no immediate change in the monetary policy stance, with a rate hike unlikely before 2H12 and only gradual normalisation afterwards, although inflation will probably hover around the top end of the 3-6% target range in the next 15 months. However, we think it is unlikely to make a sustained breach of the upper limit, although rand fragility and wage stickiness pose upside risks. In terms of the twin deficits, poor export performance and the high import content of capital spending suggest that the current account deficit will gradually widen, after being kept low by favourable terms of trade. The Treasury remains committed to budget deficit reduction and debt stabilisation — focusing more on micro policy steps to foster stronger growth — yet it may struggle to contain the public wage bill. Still, the 2011/12 deficit should be less than last October's official forecast.

Figure 38. Egypt, Nigeria and South Africa — Economic Forecast, 2011-2013F

		Egypt			Nigeria			South Africa		
		2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Real GDP	YoY	1.5%	3.3%	3.9%	7.1%	6.7%	6.5%	3.1%	2.9%	3.8%
Final Domestic Demand	YoY	2.5	4.0	3.8	NA	NA	NA	4.6	3.3	4.0
Private Consumption	YoY	3.6	1.5	1.5	NA	NA	NA	4.9	2.8	3.3
Fixed Investment	YoY	-3.2	7.2	3.4	NA	NA	NA	4.3	4.4	5.7
Exports	YoY	-2.3	2.1	6.3	NA	NA	NA	5.9	5.3	6.2
Imports	YoY	0.2	5.4	5.5	NA	NA	NA	9.1	6.7	7.0
CPI	YoY	10.1	11.6	14.4	10.8	10.9	10.4	5.0	5.9	5.4
Unemployment Rate	%	11.0	12.5	13.0	NA	NA	NA	24.9	25.7	25.2
Current Account	US$ bn	-5.5	-6.8	-8.0	15.9	16.5	21.9	-13.6	-17.2	-21.9
	% of GDP	-2.4	-2.7	-3.2	5.9	5.3	6.0	-3.4	-4.7	-5.6
Fiscal Balance	% of GDP	-8.9	-8.0	-6.6	-3.2	-2.8	-2.0	-5.0	-4.8	-4.2
US Dollar Exchange Rate	Average	5.94	6.27	7.22	155	160	163	7.26	8.55	8.78

Source: Citi Investment Research and Analysis

Figure 39. Selected Emerging Market Countries — Economic Forecast Overview, 2011F-2013F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F	2011F	2012F	2013F
Asia	**7.2%**	**6.9%**	**7.3%**	**5.8%**	**4.1%**	**4.3%**	**4.0%**	**2.3%**	**1.6%**	**-2.2%**	**-2.6%**	**-2.2%**
China	9.2	8.4	8.6	5.4	3.5	3.9	2.8	2.0	1.5	-1.1	-2.0	-1.5
Hong Kong	5.0	3.0	4.2	5.3	4.0	2.9	8.1	13.1	12.2	3.5	0.8	0.7
India*	6.9	7.0	7.5	9.0	6.7	6.5	-3.5	-3.6	-3.2	-8.3	-8.0	-7.5
Indonesia	6.5	6.3	6.5	5.4	4.9	5.2	0.2	-0.3	-0.5	-1.2	-1.0	-0.7
Korea	3.6	3.7	4.4	4.0	3.3	3.1	2.5	1.1	1.0	0.5	0.7	1.2
Malaysia	5.1	5.0	5.3	3.2	2.5	2.8	11.5	10.5	9.0	-5.0	-5.0	-4.7
Pakistan	2.8	3.1	4.2	10.5	11.0	11.0	-2.2	-2.7	-3.8	-6.5	-6.2	-5.5
Philippines	3.7	4.0	4.5	4.8	3.5	4.0	2.5	2.0	1.3	-1.6	-2.0	-1.3
Singapore	4.9	3.0	5.0	5.3	3.0	3.1	16.5	15.0	13.0	1.5	1.0	1.0
Sri Lanka	8.0	7.6	7.8	6.8	7.3	7.0	-6.7	-6.1	-5.2	-7.0	-6.5	-6.0
Taiwan	4.0	3.7	4.2	1.4	1.4	1.7	8.8	8.7	8.4	-2.5	-2.0	-1.8
Thailand	0.1	3.8	5.0	3.8	2.9	3.3	3.4	-1.3	-0.5	-1.5	-3.8	-2.7
Vietnam	5.9	6.0	6.3	18.6	10.3	8.1	-3.5	-2.3	-2.4	-5.0	-4.8	-4.5
Latin America	**4.2%**	**3.7%**	**4.4%**	**7.0%**	**6.6%**	**6.5%**	**-1.0%**	**-0.9%**	**-1.3%**	**-2.4%**	**-2.4%**	**-2.4%**
Argentina	9.4	5.0	5.0	9.8	9.6	12.2	0.4	0.3	0.2	-1.6	-2.0	-2.0
Brazil	2.9	3.3	4.5	6.6	5.5	5.1	-2.1	-2.1	-2.4	-2.7	-2.7	-2.9
Chile	6.3	4.0	5.0	3.3	3.6	3.1	-1.2	-1.9	-1.9	0.8	0.7	0.6
Colombia	5.8	5.1	5.2	3.4	3.9	4.2	-2.9	-3.1	-2.9	-2.9	-3.0	-2.5
Mexico	3.9	3.3	3.5	3.4	4.3	3.7	-1.0	-2.1	-2.1	-2.5	-2.2	-2.0
Panama	10.0	7.0	7.0	5.9	5.6	3.2	-13.5	-11.5	-9.9	-2.4	-2.0	-1.5
Peru	6.9	5.0	6.5	3.4	3.4	3.0	-1.6	-2.4	-2.8	1.5	1.2	-0.3
Venezuela	4.0	4.0	3.4	27.0	26.3	28.0	10.4	8.6	9.9	-5.0	-5.0	-4.0
Europe	**4.9%**	**2.8%**	**3.7%**	**6.7%**	**5.8%**	**5.6%**	**-0.4%**	**-0.1%**	**-1.0%**	**-0.8%**	**-1.5%**	**-1.3%**
Czech Republic	1.7	-0.4	2.0	1.9	3.1	1.4	-2.3	-3.2	-3.4	-3.7	-3.7	-3.1
Hungary	1.7	-0.1	1.4	3.9	5.3	3.4	2.0	1.6	1.8	3.5	-3.2	-3.0
Kazakhstan	7.5	6.3	6.3	8.4	5.5	6.6	8.1	1.9	2.3	5.9	3.3	4.4
Poland	4.3	2.1	2.8	4.2	3.5	2.6	-4.1	-3.0	-4.0	-5.1	-3.4	-2.4
Romania	2.5	1.7	3.1	5.8	2.6	2.0	-4.1	-4.5	-4.7	-4.4	-2.0	-2.0
Russia	4.3	3.5	4.0	8.4	5.5	6.8	5.5	3.2	0.6	0.8	-0.3	-0.5
Slovakia	3.3	0.7	2.1	3.9	3.0	2.9	-1.0	0.7	0.1	-4.6	-5.9	-3.2
Turkey	8.2	2.5	4.3	6.5	9.5	7.0	-10.2	-8.4	-7.9	-1.3	-2.2	-2.5
Ukraine	5.1	3.1	4.5	8.0	8.4	7.2	-5.8	-7.9	-4.4	-1.8	-3.4	-3.7
Africa/Mideast	**5.7%**	**4.2%**	**5.1%**	**5.5%**	**6.0%**	**6.4%**	**4.9%**	**10.4%**	**9.8%**	**2.5%**	**2.5%**	**3.0%**
Bahrain	4.5	-4.4	4.7	1.9	2.0	3.0	2.7	16.7	1.2	-5.6	-3.4	-7.0
Egypt	1.5	3.3	3.9	10.1	11.6	14.4	-2.4	-2.7	-3.2	-8.9	-8.0	-6.6
Ghana	13.5	7.5	6.5	8.7	6.5	8.3	-6.5	-7.6	-5.0	-5.4	-5.6	-4.7
Iraq	9.4	12.4	11.2	4.0	5.0	6.0	-7.0	35.3	72.8	21.7	10.5	32.9
Israel	4.7	2.5	3.4	3.5	1.8	2.5	-0.8	-2.1	-0.8	-3.2	-3.7	-2.7
Jordan	2.3	2.5	3.0	5.0	5.0	5.0	-11.3	-6.0	-5.2	-3.9	-8.0	-9.5
Kenya	4.7	5.2	5.8	12.1	12.7	8.9	-8.2	-7.5	-6.5	-5.5	-5.0	-4.9
Kuwait	4.3	0.2	2.5	4.2	5.0	5.0	47.5	41.9	46.6	26.7	20.4	23.1
Lebanon	2.8	3.5	4.3	3.4	6.0	5.0	-15.1	-11.4	-12.3	-6.6	-7.8	-8.8
Nigeria	7.1	6.7	6.5	10.8	10.9	10.4	5.9	5.3	6.0	-3.2	-2.8	-2.0
Oman	1.4	3.0	4.5	3.5	3.0	3.0	3.4	2.9	21.8	6.1	2.8	4.6
Qatar	18.1	6.0	8.3	3.0	3.0	3.0	38.7	33.5	29.5	8.1	4.9	2.9
Saudi Arabia	6.7	7.1	6.3	5.0	7.0	8.0	0.0	22.0	21.8	12.4	14.7	11.2
South Africa	3.1	2.9	3.8	5.0	5.9	5.4	-3.4	-4.7	-5.6	-5.0	-4.8	-4.2
Tanzania	6.3	6.7	7.0	12.7	12.1	6.0	-8.5	-7.8	-9.1	-7.8	-6.2	-5.8
UAE	5.4	0.5	3.4	2.0	2.4	2.9	4.6	1.0	1.5	0.0	0.0	0.0
Uganda	6.0	6.2	7.0	18.6	13.2	6.0	-4.0	-8.9	-8.0	-7.2	-6.0	-5.2
Zambia	6.6	6.5	6.9	8.7	7.5	8.0	4.2	1.2	-2.5	-3.2	-4.2	-5.2
Total	**6.1%**	**5.3%**	**5.9%**	**6.1%**	**5.1%**	**5.2%**	**2.3%**	**2.1%**	**1.5%**	**-1.5%**	**-1.8%**	**-1.5%**

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

Figure 40. Citi Global Economics Team *For Informational Purposes Only*

	Name	Office Number	Email Address	Responsibilities
NEW YORK	**North America**			
	Nathan Sheets[3]	(1-212) 816-9297	nathan.sheets@citi.com	Global Head of International Economics
	Robert DiClemente[3]	(1-212) 816-7942	robert.diclemente@citi.com	Head, North America
	Peter D'Antonio[3]	(1-212) 816-9889	peter.dantonio@citi.com	U.S. Forecast
	Steven Wieting[3]	(1-212) 816-7148	steven.wieting@citi.com	Equity Themes
	Dana Peterson[3]	(1-212) 816-3549	dana.peterson@citi.com	U.S. Forecast and Canada
	Emerging Markets			
	Guillermo Mondino	(1-212) 816-6499	guillermo.mondino@citi.com	Head, EM Economics and Strategy Research
	Joaquin Cottani[3]	(1-212) 816-2735	joaquin.cottani@citi.com	Head, Latin America
	Jorge Pastrana[2]	(1-212) 816-5728	jorge.armando.pastranavillegas@citi.com	Caribbean and Central America
	Camilo González García[2]	(1-212) 816-9901	camilo.gonzalezgarcia@citi.com	Argentina, Chile, Peru, Caribbean, Central America
LONDON	Willem Buiter[1]	(44-20) 7986-5944	willem.buiter@citi.com	Chief Economist
	Tina Fordham[1]	(44-20) 7986-9860	tina.fordham@citi.com	Global Political Analysis
	Ebrahim Rahbari[1]	(44-20) 7986-6522	ebrahim.rahbari@citi.com	Global Economics
	Western Europe			
	Michael Saunders[1]	(44-20) 7986-3299	michael.saunders@citi.com	Head, Western Europe and U.K. Coverage
	Jürgen Michels[1]	(44-20) 7986-3294	juergen.michels@citi.com	Euro Area (Germany) and ECB Specialist
	Guillaume Menuet[1]	(44-20) 7986-1314	guillaume.menuet@citi.com	Euro Area (France, Belgium)
	Giada Giani[1]			Euro Area (Italy, Spain, Greece, Portugal)
	Tina Mortensen[1]	(44-20) 7986-3284	tina.mortensen@citi.com	Nordics
	Ann O'Kelly[1]	(44-20) 7986-3297	ann.okelly@citi.com	Europe
	Emerging Markets			
	David Lubin[1]	(44-20) 7986-3302	david.p.lubin@citi.com	Head, Emerging Markets and CEEMEA
	David Cowan[1]	(44-20) 7986-3285	david.cowan@citi.com	Africa
	Elina Ribakova[1]	(44-20) 7986-4356	elina.ribakova@citi.com	Russia, Kazakhstan, Ukraine
TOKYO	Kiichi Murashima[2]	(813) 6270-4980	kiichi.murashima@citi.com	Head, Japan
SYDNEY	Paul Brennan[15]	(612) 8225-4899	paul.brennan@citi.com	Head, Australia, New Zealand
	Josh Williamson[15]	(612) 8225-4904	josh.williamson@citi.com	Australia, New Zealand
BOGOTA	Munir Jalil[12]	(57) (1) 639-4195	munir.jalil@citi.com	Colombia, Venezuela
BUDAPEST	Eszter Gargyan[7]	(36) 1 374 5573	eszter.gargyan@citi.com	Hungary
DUBAI	Farouk Soussa[1]	(971) (4) 509-9750	farouk.soussa@citi.com	Gulf, Middle East, Levant
HONG KONG	Johanna Chua[4]	(852) 2501-2357	johanna.chua@citi.com	Head, Emerging Asia, Vietnam
	Minggao Shen[4]	(852) 2501-2485	minggao.shen@citi.com	China
	Shuang Ding[4]	(852) 2501-2769	shuang.ding@citi.com	China
	Adrienne Lui[4]	(852) 2501-2753	adrienne.lui@citi.com	Hong Kong
ISTANBUL	Ilker Domac[6]	(90) 212 319-4623	ilker.domac@citi.com	Turkey, Romania, Balkans
	Gultekin Isiklar[6]	(90) 212 319-4915	gultekin.isiklar@citi.com	Turkey, Romania, Balkans
JAKARTA	Helmi Arman	62-21-5290-8960	helmi.arman@citi.com	Indonesia
MANILA	Jun Trinidad[17]	(63) (2) 894-7270	jun.trinidad@citi.com	Philippines, Thailand
MEXICO CITY	Sergio Luna Martinez[4]	(52) (55) 2226-6799	sluna@banamex.com	Mexico
MOSCOW	Natalia Novikova[18]	(7) 495 643-1507	natalia1.novikova@citi.com	Russia, Kazakhstan, Ukraine
MUMBAI	Rohini Malkani[8]	(91) 22-6631-9876	rohini.malkani@citi.com	India, Pakistan, Sri Lanka
	Anushka Shah[8]	(91) 22-6631-9878	anushka.shah@citi.com	India, Pakistan, Sri Lanka
PRAGUE	Jaromir Sindel[13]	(42) (02) 3306-1485	jaromir.sindel@citi.com	Czech Republic, Slovakia
SAO PAULO	Marcelo Kfoury[19]	(55) (11) 4009-3470	marcelo.kfoury@citi.com	Brazil, Latin America
SEOUL	Jaechul Chang[16]	(82) 2 3705-0727	jaechul.chang@citi.com	Korea
SHANGHAI	Wang Daxue	(86-21) 2896-6584	daxue.wang@citi.com	China
SINGAPORE	Kit Wei Zhang[20]	(65) 6657 5079	kit.wei.zheng@citi.com	Singapore, Malaysia
TAIPEI	Cheng-Mount Cheng[11]	(886) (2) 8726-9096	chengmount.cheng@citi.com	Hong Kong, Taiwan
WARSAW	Piotr Kalisz[7]	(48) (22) 692-9633	piotr.kalisz@citi.com	Poland, Hungary
	Cezary Chrapek[7]	(48) (22) 692-9421	cezary.chrapek@citi.com	Poland, Hungary

1 Citigroup Global Markets Ltd; 2 Citigroup Global Markets Japan Inc.;3 Citigroup Global Markets Inc; 4 Citigroup Global Markets Asia; 5 Citigroup Global Markets (Pty) Ltd; 6 Citibank Anonim Sirketi; 7 Bank Handlowy w Warszawie; 8 Citigroup Global Markets India Private Limited; 9 Citigroup Global Markets India Private Limited; 10 Citibank (China) Co. Ltd; 11 Acciones y Valores Banamex, S.A. de C.V; 12 Citibank Taiwan Ltd; 13Banco Citibank S.A.; 14 Citibank Europe plc Czech Republic; 15 Citigroup Pty Limited; 16 Citigroup Global Markets Korea Securities Ltd; 17 Citibank N.A. Philippines; 18 ZAO Citibank; 19 Banco Citibank S.A.; 20 Citigroup Global Markets Singapore PTE LIMITED
NON-US RESEARCH ANALYST DISCLOSURES: The non-US research analysts listed above (i.e., the research analysts listed above other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Unless indicated in Appendix A-1 of this document or any of the referenced documents, the analysts listed above have not contributed to this document or any of the referenced documents.
SALES AND TRADING TEAMS: People designated as working in the sales or trading departments of Citi are not independent research analysts and have not contributed to this document or any of the referenced documents.
Source: Citi Investment Research and Analysis.

Figure 41. Citi Global Strategy and Macro Team *For Informational Purposes Only*

	Name	Office Number	Email Address	Responsibilities
Global Macro Strategy Market Commentary				
London	Jeremy Hale †[1]	(44-20) 7986-9465	jeremy.hale@citi.com	Head, Macro Strategy
	Jeff Amato †[1]	(44-20) 7986-1326	jeffery.david.amato@citi.com	Macro Strategy
	Maya Bhandari†[1]	(44-20 7986-1013	maya.bhandari@citi.com	Macro Strategy
	Maximilian Moldaschl †[1]	(44-20) 7986-8753	maximilian.moldaschl@citi.com	Macro Strategy
Rates Strategy Research				
London	Mark Schofield[1]	(44-20) 7986-9224	mark.schofield@citi.com	Head G10 Rates Strategy
	Robert Crossley[1]	(44-20) 7986-9255	robert.crossley@citi.com	European Rates Strategy
	Jamie Searle[1]	(44-20) 7986-9493	jamie.searle@citi.com	European Rates Strategy
	Nishay Patel[1]	(44-20) 7986-1007	nishay.patel@citi.com	European Rates Strategy
	Peter Goves[1]	(44-20) 7986-3215	peter.goves@citi.com	European Rates Strategy
New York	Brett Rose[3]	(1-212) 723-6439	brett.rose@citi.com	US Rates and MBS Strategy
	Neela Gollapudi[3]	(1-212) 723-3075	neela.gollapudi@citi.com	US Rates and MBS Strategy
	Inger Daniels[3]	(1-212) 723-3274	inger.daniels@citi.com	US Rates and MBS Strategy
Asia Pac	Steven Mansell[21]	(61-2) 8225 4900	steven.mansell@citi.com	Asia Pac Rates Strategy
	Sandeep Arora[3]	(813-6) 270-7228	sandeep.k.arora@citi.com	Asia Pac Rates Strategy
	Eiji Dohke[3]	(813-6) 270-7245	eiji.dohke@citi.com	Japan Rates Strategy
	Maki Shimizu[3]	(813-6) 270-7246	maki.shimizu@citi.com	Japan Rates Strategy
	Jacy Sun[3]	(813-6) 270-7247	jacy.sun@citi.com	Japan Rates Strategy
Equity Strategy Research				
Global	Robert Buckland[1]	(44-20) 7986-3947	robert.buckland@citi.com	Chief Global Strategist
	Hasan S Tevfik, CFA[1]	(44-20) 7986-4110	hasan.tevfik@citi.com	
	Beata Manthey, PhD[1]	(44-20) 7986-4349	beata.manthey@citi.com	
	Mert Genc[1]	(44-20) 7986-4087	mert.genc@citi.com	
Global Themes				
Pan-Europe	Jonathan Stubbs[1]	(44-20) 7986-4218	jonathan.stubbs@citi.com	Regional Head
	Adrian Cattley[1]	(44-20) 7986-4454	adrian.cattley@citi.com	
	Anna Esposito[1]	(44 20) 7986-4039	anna.z.esposito@citi.com	
	Christine Jensen[1]			
	András Vig[1]	(44 20) 7986-3940	andras.vig@citi.com	
US	Tobias M Levkovich[3]	(1-212) 816-1623	tobias.levkovich@citi.com	Regional Head
	Lorraine M Schmitt[3]	(1-212) 816-1657	lorraine.m.schmitt@citi.com	
	Andrew T Ward[3]	(1-212) 816-8515	andrew.t.ward@citi.com	
US Small & Mid Cap	Scott T Chronert[3]	(1-415) 951-1771	scott.t.chronert@citi.com	
	Louis Odette	(1-415) 951-1774	louis.l.odette@citi.com	
Japan	Kenji Abe PhD[12]	(81-3) 6270-4890	kenji.abe@citi.com	Regional Head
Australia & New Zealand	Tony Brennan[15]	(61-2) 8225-4890	tony.brennan@citi.com	Regional Head
Global Emerging Markets	Geoffrey Dennis[3]	(1-212) 816-8391	geoffrey.dennis@citi.com	Regional Head
	Howard Park[3]	(1-212) 816-2473	howard.park@citi.com	
Asia ex Japan	Markus Rosgen[4]	(852) 2501-2752	markus.rosgen@citi.com	Regional Head
	Kelly Kwok[4]	(852) 2501-2460	kelly.kwok@citi.com	
	Yue Hin Pong[4]	(852) 2501-2449	yue.hin.pong@citi.com	
Latin America	Jason Press[3]	(1-212) 816-5130	jason.press@citi.com	Regional Head
	Julio Zamora[3]	(1-212) 816-6039	julio.zamora@citi.com	
CEEMEA/Frontier Markets	Andrew Howell, CFA[1]	(44-20) 7986-0891	andrew.howell@citi.com	Regional Head
	Maria Gratsova[1]	(44-20) 7986-1238	maria.gratsova@citi.com	

† This author is not an independent research analyst and may have knowledge of the Firm's positions and/or the Firm's interest in one or more of the securities referenced herein.

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

NON-US RESEARCH ANALYST DISCLOSURES: The non-US research analysts listed above (i.e., the research analysts listed above other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Unless indicated in Appendix A-1 of this document or any of the referenced documents, the analysts listed above have not contributed to this document or any of the referenced documents.

SALES AND TRADING TEAMS: People designated as working in the sales or trading departments of Citi are not independent research analysts and have not contributed to this document or any of the referenced documents.

Source: Citi Investment Research and Analysis.

Figure 41. (Continued) Citi Global Strategy and Macro Team *For Informational Purposes Only*

	Name	Office Number	Email Address	Responsibilities
Credit Strategy Research				
London	Matt King[1]	(44-20) 7986 3228	matt.king@citi.com	Global Head
	Hans Lorenzen[1]	(44-20) 7986 3568	hans.lorenzen@citi.com	European Flow Credit
	Michael Hampden-Turner[1]	(44-20) 7986-3445	michael.hampdenturner@citi.com	Structured Credit
New York	Stephen Antczak[3]	(1-212) 723-6267	stephen.antczak@citi.com	US Head Flow Credit
	Ratul Roy[3]	(1-212) 723-6043	ratul.roy@citi.com	Structured Credit
	Jason Shoup[3]	(1-212) 723-6147	jason.b.shoup@citi.com	US HG Flow Credit
	Michael Anderson[3]	(1-212) 723-3819	michael.henry.anderson@citi.com	US HY Flow Credit
Securitized Products Strategy Research				
New York	Mary Kane[3]	(1-212) 816-8409	mary.e.kane@citi.com	Global Head
	Stav Gaon[3]	(1-212) 816-3233	stav.gaon@citi.com	CMBS
	Jeff Berenbaum[3]	(1-212) 816-8399	jeffrey.s.berenbaum@citi.com	CMBS
London	Gordon Kerr[1]	(44-20) 7986-1998	gordon.kerr@citi.com	European RMBS/ABS

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

NON-US RESEARCH ANALYST DISCLOSURES: The non-US research analysts listed above (i.e., the research analysts listed above other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Unless indicated in Appendix A-1 of this document or any of the referenced documents, the analysts listed above have not contributed to this document or any of the referenced documents.

SALES AND TRADING TEAMS: People designated as working in the sales or trading departments of Citi are not independent research analysts and have not contributed to this document or any of the referenced documents.

Source: Citi Investment Research and Analysis.

This page is intentionally left blank

Sovereign Ratings Outlook

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

Mark Schofield
(44-20) 7986-9224
mark.schofield@citi.com

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

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. This publication does 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. The full piece is released roughly once per quarter, with a brief summary in the "*Global Economic Outlook and Strategy*".

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

	S&P Ratings				Moody's Ratings			
Country	Current Rating	Current Outlook	Citi Nearterm (Up to 6 Months) Forecast Rating	Citi Longterm (Next 2-3 Years) Forecast Rating & Outlook	Current Rating	Current Outlook	Citi Nearterm (Up to 6 Months) Forecast Rating	Citi Longterm (Next 2-3 Years) Forecast Rating & Outlook
US	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg)	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 (Neg)	Aaa	Stable	Aaa	Aaa (Neg)
France	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Italy	BBB+	Neg	BBB+ (Neg)	BBB- ↓↓	A3	Neg	A3 (Neg)	Baa3 ↓↓↓
Spain	A	Neg	A (Neg)	BBB+ ↓↓	A3	Neg	A3 (Neg)	Baa2 ↓↓
Austria	AA+	Neg	AA+ (Neg)	AA ↓	Aaa	Neg	Aaa (Neg)	Aa1 ↓
Belgium	AA	Neg	AA (Neg)	AA- ↓	Aa3	Neg	Aa3 (Neg)	Aa3
Finland	AAA	Neg	AAA (Neg)	AA+ ↓	Aaa	Stable	Aaa	Aaa (Neg)
Greece	CC	Neg	SD ↓↓	CC/C	Ca	Developing	C ↓	Ca
Ireland	BBB+	Neg	BBB+(Neg)	BB ↓↓↓↓	Ba1	Neg	Ba1 (Neg)	Ba3 ↓↓
Netherlands	AAA	Neg	AAA (Neg)	AA+ ↓	Aaa	Stable	Aaa	Aaa (Neg)
Portugal	BB	Neg	BB (Neg)	CC/C ↓↓↓↓↓	Ba3	Neg	Ba3	Ca ↓↓↓↓↓
UK	AAA	Stable	AAA	AAA (Neg)	Aaa	Neg	Aaa (Neg)	Aaa (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
EFSF	AA+	Developing	AA+	AA+	(P) Aaa	Stable	Aaa	Aa1 ↓

Note: Arrows denote expected ratings changes from the current rating. (Neg) denotes negative outlook. (Neg W) denotes negative watch. SD means Selective Default. (P) means Provisional. The number of arrows denotes the expected change in ratings notches from the current level. We show a maximum of five arrows even for countries where we expect more than five notches of ratings change. In the outlook we have not included an extension of the actual EFSF lending beyond the now targeted €440bn maximum capacity. In the event that a substantial extension of the EFSF takes place and is likely to incur sizeable fiscal costs, various Euro Area countries may be at risk of downgrade. NA Not available. Sources: Moody's, S&P and Citi Investment Research and Analysis

Key Expected Ratings Issues

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

Citi's response to the recent action from Moody's

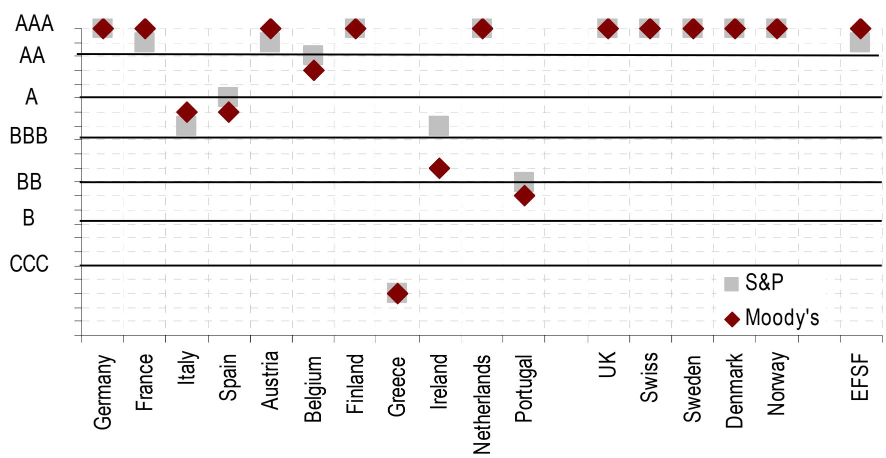
On Monday 13 February, Moody's made various adjustments in its ratings of 9 European sovereigns "*to reflect their susceptibility to the growing financial and macroeconomic risks emanating from the euro area crisis and how these risks exacerbate the affected countries' own specific challenges*"[7]. For the countries Citi follows in the *Sovereign Rating Outlook* the key points were:

- Two notch downgrade of Spain (from A1 to A3)
- One notch downgrade of Italy (from A2 to A3)
- One notch downgrade of Portugal (from Ba2 to Ba3)
- The UK, France and Austria put on Aaa Negative Outlook.

No ratings upgrades or downgrades expected by Citi over the near-term except for Greece

In our view, the moves were broadly in line with near-term expectations and also acted as a normalisation with the S&P rating changes of 13 January (*Implications of Moody's Downgrades*). Given the recent rating actions by both S&P and Moody's, Citi is keeping near-term outlooks stable with current ratings for all countries except Greece (which we expect to move imminently to Selective Default). We are also keeping our longer-term outlooks the same as published in the January edition of the *Sovereign Ratings Outlook* except where indicated below.

Figure 43. Current Select European Ratings by Moody's and S&P



Sources: S&P, Moody's, Citi.

Long-term Citi view on Ireland: S&P rating to move from BBB+ to BB and Moody's rating to move from Ba1 to Ba3

Ireland: The current ratings differential between S&P (BBB+) and Moody's (Ba1) is the largest among the European countries we analyse. Citi expects renewed recession in Ireland in 2012 and doubts that the government can regain anything like normal market access in 2012-13. Together with the prospect of further financial support, we allow for additional downgrades by S&P (from BBB+ to BB, previously BBB-) and Moody's (from Ba1 to Ba3, previously Ba2) over the longer-term.

Long-term Citi view on Spain: Moody's rating to move from A3 to Baa2

Spain: We expect a 2 notch downgrade by both S&P (from A to BBB+ as previously published) and Moody's (from A3 to Baa2, previously Baa1) over the longer-term. This is primarily predicated on the risks of further fiscal slippages in a deteriorating macro environment. However, we preserve Spain's higher rating by both agencies compared with Italy over the longer-term due to Spain's lower debt burden and likely marginal funding rates.

[7] *Moody's Adjusts Ratings of 9 European Sovereigns To Capture Downside Risks*. 13 February 2012

Rates Strategy

Mark Schofield
(44 20) 7986 9224
mark.schofield@citi.com

The supposed dislocation between the so-called safe-haven rates markets and risk-assets continues. However we do not view this as anomalous so long as cheap money continues to provide support for a broad range of asset classes.

We do not think that a structural shift to lower yields is justified in the US, given the strength of the recent data, but we do think that the strong commitment to an easy policy stance will continue to support the range-trading environment reinforcing the appeal of carry and roll-down trades and weighing on volatility. The exception to this may be at the longer end of the curve where rising long-term growth and inflation expectations and ongoing fiscal concerns will likely continue to erode demand. Nevertheless a further pivotal steepening of the yield curve seems more likely, in our view, than a structural bear market any time soon.

In Europe, meanwhile, we think that the risks surrounding the EMU crisis are still understated and that a test of the lower end of the recent trading ranges looks likely. Although short-term fixes continue to suppress the risks of an immediate collapse, we fear that the longer-term issue of debt sustainability in the weaker Eurozone countries is still deteriorating rather than improving.

Our growth forecasts for Europe have been modestly raised this month but this should not detract from the fact that the economic outlook for the next couple of years is much bleaker than that of the US. With this in mind, we think that a positive spread between EUR and USD rates in the 2-5yr sector of the curve looks wrong. We expect spreads between the EUR and USD market in these sectors to eventually turn negative and think that being long core EMU bonds or EUR swaps against USD rates remains a more attractive strategy than an outright duration position.

We expect EMU spreads to remain under pressure while PSI threatens valuations in the markets already in the EFSF and while ratings risks weigh on the other issuers. We do not, however, think that a complete EMU break-up is realistically on the cards at the current time and thus think it unlikely that we will see spreads widen out beyond the extremes seen in November of last year.

In the UK the recent ratings statement has had very little impact and so long as the coalition is able to maintain its strong fiscal stance we see no reason for Gilt investors to be overly concerned. The greater risk to Gilts would be a weakening of the government's position and a reversal of fiscal tightening; something that we think would very likely trigger a rapid response from ratings agencies and the markets. Assuming that doesn't happen, we see the combination of fiscal restraint, weak growth and quantitative easing as very supportive for Gilts.

Ongoing downgrades to Japan's growth outlook and continued expectations of BoJ bond purchases are supporting JGBs. The divergence between Japanese yields and the other major markets looks overstretched, however, and we think that there maybe some JGB underperformance around the fiscal year end. However with rates likely to remain near zero for a long time and the BoJ maintaining its duration commitment we think that calls for a fiscally driven bear-market are premature.

Figure 44. Interest Rate and Bond Market Forecasts (End of Period), as of 22 February 2012

		Forecast End Period					
	Current	1Q 12	2Q 12	3Q 12	4Q 12	1Q 13	2Q 13
US							
Policy Rate (Fed Funds) End Quarter	0.25	0.25	0.25	0.25	0.25	0.25	0.25
3-Month Libor	0.49	0.45	0.45	0.50	0.55	0.65	0.75
2 Year Treasury Yield	0.29	0.27	0.30	0.35	0.45	0.55	0.70
5 Year Treasury Yield	0.88	0.90	1.00	1.10	1.25	1.40	1.55
10 Year Treasury Yield	2.07	2.00	2.10	2.25	2.45	2.55	2.70
30 Year Treasury Yield	3.17	3.10	3.25	3.40	3.55	3.65	3.70
2-10 Year Treasury Curve	178	173	180	190	200	200	200
2 Year Swap Spread (Swap Less Govt.), bp	29	40	45	40	35	35	35
10 Year Swap Spread (Swap Less Govt.), bp	8	12	15	20	22	24	25
30 Year Swap Spread (Swap Less Govt.), bp	-33	-30	-35	-40	-50	-50	-50
30 Year Mortgage Yield	3.88	3.90	4.00	4.10	4.25	4.50	4.70
10 Year Breakeven Inflation	229	225	230	235	235	240	240
Euro Area							
Policy Rate	1.00	1.00	0.75	0.50	0.50	0.50	0.50
Overnight Rate (EONIA)	0.36	0.32	0.20	0.15	0.15	0.15	0.15
3-Month Libor	0.97	1.10	0.80	0.50	0.50	0.50	0.50
2 Year Treasury Yield	0.26	0.25	0.25	0.25	0.35	0.35	0.35
5 Year Treasury Yield	0.93	0.80	0.70	0.65	0.75	0.75	0.75
10 Year Treasury Yield	1.97	1.75	1.60	1.50	1.50	1.50	1.50
30 Year Treasury Yield	2.54	2.50	2.45	2.40	2.40	2.40	2.35
2-10 Year Treasury Curve	171	150	135	125	115	115	115
10 Year BTP-Bund Spread	354	550	600	550	450	400	350
10 Year Swap Spread (Swap Less Govt.), bp	42	50	65	65	50	45	35
10 Year Breakeven Inflation	161	150	125	125	150	165	175
Japan							
Policy Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-Month Libor	0.20	0.20	0.20	0.20	0.20	0.20	0.20
2 Year Treasury Yield	0.11	0.10	0.10	0.10	0.15	0.15	0.20
5 Year Treasury Yield	0.30	0.40	0.30	0.35	0.45	0.55	0.65
10 Year Treasury Yield	0.96	1.10	0.95	1.00	1.20	1.30	1.40
30 Year Treasury Yield	1.93	2.05	1.95	2.00	2.15	2.20	2.30
2-10 Year Treasury Curve	85	100	85	90	105	115	120
2 Year Swap Spread (Swap Less Govt.), bp	24	27	24	26	28	28	30
10 Year Swap Spread (Swap Less Govt.), bp	2	7	3	4	7	8	10
10 Year Breakeven Inflation	NA	NA	NA	NA	NA	NA	NA
UK							
Policy Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-Month Libor	1.07	1.00	0.90	0.75	0.75	0.75	0.75
2 Year Treasury Yield	0.45	0.40	0.35	0.35	0.35	0.35	0.35
5 Year Treasury Yield	1.08	1.00	0.90	0.85	0.75	0.75	0.75
10 Year Treasury Yield	2.22	2.00	1.85	1.70	1.60	1.60	1.60
30 Year Treasury Yield	3.38	2.85	2.65	2.50	2.35	2.30	2.20
2-10 Year Treasury Curve	177	160	150	135	125	125	125
10 Year Swap Spread (Swap Less Govt.), bp	29	35	40	50	55	55	55
10 Year Breakeven Inflation	272	250	240	220	230	235	240
Australia							
Policy Rate	4.25	4.25	4.00	4.00	4.00	4.25	4.50
3-Month Libor	4.37	4.30	4.10	4.10	4.20	4.40	4.65
2 Year Treasury Yield	3.58	3.45	3.30	3.40	3.60	3.80	4.20
5 Year Treasury Yield	3.63	3.50	3.40	3.50	3.75	4.00	4.40
10 Year Treasury Yield	4.10	3.90	3.60	3.90	4.20	4.50	4.80
2-10 Year Treasury Curve	52	45	30	50	60	70	60
10 Year Swap Spread (Swap Less Govt.), bp	80	80	70	65	60	60	55

Source: Citi Investment Research and Analysis

Credit Outlook

Hans Lorenzen
hans.lorenzen@citi.com
(44 20) 7986 3568

Matt King
matt.king@citi.com
(44 20) 7986 3228

Conversations with a wide variety of accounts in recent days suggest that two of the key factors that have been driving the price action over the past several quarters — the technical backdrop and European fiscal developments — remain tilted in favor of the technicals. So much so, in fact, that we believe some investors may be too complacent about the prospect of a tail event. Our base case scenario in the near-term is that spreads will maintain their tightening bias, but we are very wary about any overweights that are not accompanied by a "just-in-case" position.

Technical backdrop pressuring investors to act

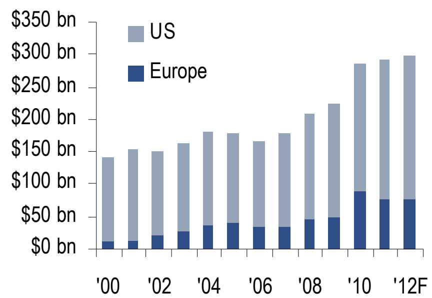
The technical backdrop is unambiguously positive, and the pressure on investors to put money to work remains intense. There are *at least* three key reasons for the positive backdrop — dramatic inflows from a wide variety of sources, the deleveraging environment, and select government policies.

With regard to inflows, there has been much discussion about capital moving into credit via mutual funds and ETFs, but in our view there are even larger sources of demand. Consider how large coupon income has been in recent years and is likely to be in the period ahead. Figure 45 shows annual corporate coupon income over the past 10+ years in the U.S. and Europe, and we see that despite record low Treasury yields coupon income has never been higher.

In fact, coupon income has exceeded $275 bn in '10 and '11 and is expected to rise to almost $300 bn this year. Clearly $300 bn is a significant number in an absolute sense, but the situation is particularly acute given that net supply prospects are modest. For example, in the U.S. IG market we expect approximately $200 bn of net supply this year, which based on historical norms is not a large number, and in Europe we anticipate a decline in the €150 bn to €200 bn range. Where can the coupon income go?

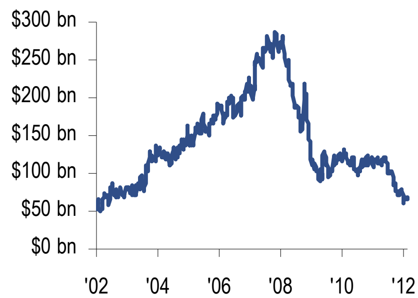
As for government policies, consider the amount of liquidity injected into the marketplace via the LTRO. The bids for the lending facility announced in December totaled about €490 bn, and our expectation for a second LTRO at the end of the month is in the region of €400 bn to €500 bn. Again, that is an extraordinary number in an absolute sense, but even more so in a relative one. For example, consider how light dealer inventories are (see Figure 46). In the current environment it does not take a very large amount of buying interest to have a significant impact on valuations.

Figure 45. Coupon income has been on the rise and is expected to be almost $300 bn this year



Source: CIRA
Note: We use the year-beginning index coupon and market value for calculation; US includes HG and HY

Figure 46. Primary dealer positions have declined to multi-year lows



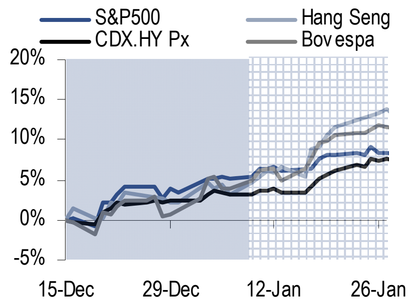
Source: CIRA, Bloomberg
Note: As of February 8, 2012

But don't underestimate the tail risk

The technical backdrop has enabled assets away from the epicenter of European-induced tail risk — CDX.HY, Hang Seng, Bovespa, etc. — to rally sharply since mid-December (Figure 47). The increased focus on technicals rather than headline risk late last year was in large part driven by the view that the fiscal challenges in Europe could effectively be "ring-fenced." But this mindset seems to have changed in early January, with assets at the epicenter of the problem rallying sharply (Figure 48).This is an overstatement, but to a certain extent the question seems to have shifted from whether the problem of fiscal imbalances in Europe can be ring-fenced to whether there is a problem at all.

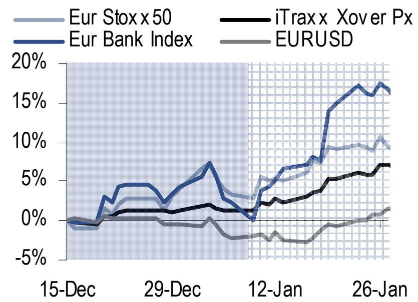
In our view, there is a problem. For example, our economics team recently raised their expectation of Greece exiting the monetary union over the next 18 months from the 25% to 30% range to 50% (please refer to Rising Risks of Greek Euro Area Exit* dated February 6, 2012 for more detail). If so, this would greatly raise the risk of capital flight from other countries, and in our opinion no amount of liquidity injections would be likely to prevent a sharp widening in spreads should a run on banks take hold.

Figure 47. Assets away from the epicenter of tail risk rallied sharply since mid-December…



Source: CIRA, Bloomberg
Note: As of February 16, 2012; indexed to December 15, 2011

Figure 48. …and assets at the epicenter of tail risk started rallying in early January



Source: CIRA, Bloomberg
Note: As of February 16, 2012; indexed to December 15, 2011

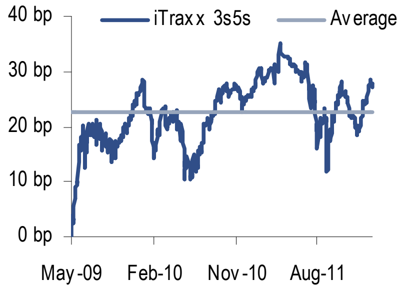
Trade Idea

So the challenge is positioning to benefit from favorable technicals while limiting exposure to tail risk. There are a number of ways to accomplish this, ranging from credit / option packages (please refer to If I Were a Hedge Fund Manager - Risk off, risk on dated February 10, 2012 for more detail) to select curve flatteners.

With regard to a curve flattener, we believe the Main 3s5s curve is too steep. If systemic risks rise again — Italy and/or Spain loses access to funding in debt markets — then front-end default expectations would surge causing curves to flatten, if not invert. And the fact that short-dated longs seem to be such a consensus trade could make an unwind all the more painful.

But Figure 49 shows that the Main 3s5s curve is currently not far from its multi-year high (27 bp currently vs. 35 bp), and is trading above its longer-term average level (22 bp). A duration-weighted package is a give trade at current levels (43 bp), but this is right in line with historical norms. Simply put, we believe that in the current environment it should be meaningfully higher.

Figure 49. iTraxx 3s5s curve seems too steep



Source: CIRA, Bloomberg
Note: As of February 16, 2012; Average from May '09 to '11

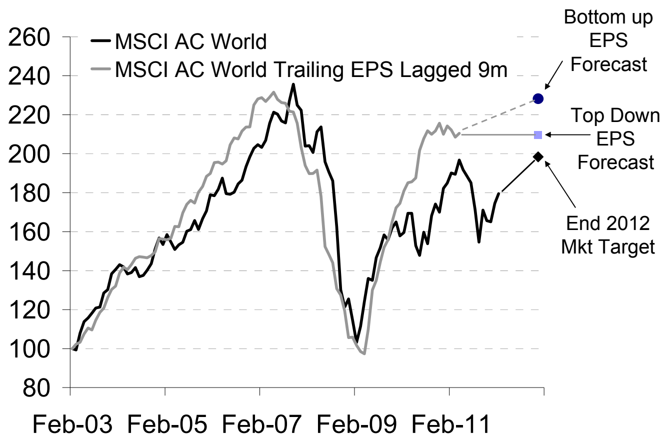
Global Equity Strategy

Robert Buckland
+44-207-986-3947
robert.buckland@citi.com

Hasan Tevfik
+44-207-986-4110
hasan.tevfik@citi.com

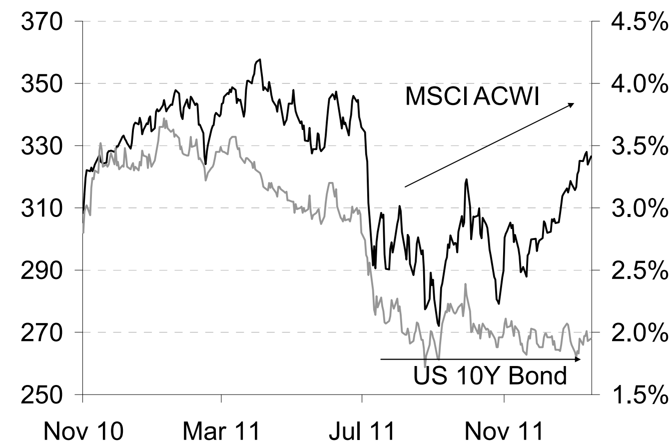
Global equities have risen 20% from the October lows. While stock indices are due for a period of consolidation, we believe there is more upside to come. Current valuations imply equity investors are pricing in a c10% decline in global EPS. We expect profits to stall in 2012 and then resume growth in 2013. We keep our MSCI AC World end-2012 target at 360, implying 10% upside from current levels. This implies a recoupling of global share prices and EPS over the year, but more through rising prices than falling EPS (see Figure 50). Of course there are many risks. The most obvious is a further escalation of the EMU crisis.

Figure 50. **MSCI AC World Price vs EPS (9m Lagged)**



Sources: MSCI and Citi Investment Research and Analysis

Figure 51. **MSCI AC World Price and US 10 Year BY**



Sources: MSCI and Citi Investment Research and Analysis

The current bounce in equities is the third significant rally in global stock market this cycle. The first rally began in March 2009 and continued until global equity indices were 84% higher. The second rally began in 3Q 2010 and the gain was 34%. The current rally is now 20%. While we believe there is more upside from here, investors shouldn't be anticipating the gains we had during the 2009 rally. Back then there were both a re-rating of stock markets and a recovery in global EPS, both from depressed levels. Currently, valuations are low, but global profits are not depressed like they were in 2009. Our forecast is for a moderate rise in EPS over the next two years. This should mean that the current rally will look more like the gain we had in 2010-11.

We believe there are reasons for the current rally to continue. Rising core government bond yields choked off the last two equity rallies. However, they are yet to be a headwind now. While global equities have been rising since October, US government bond yields have been flat (see Figure 51). A decoupling between bonds and equities is not uncommon, at least during the early stages of a stock market rally. In 2009 stock prices rose 20% before bonds started to sell-off. In 2010, bond yields fell for the first 10 weeks of the stock market rally. Both rallies ended when US 10 year government bonds reached 3.5-4%. As bond yields move higher, fixed income assets become a more attractive alternative to equities. Currently US 10 year bond yields are around 2%, still some way to go before becoming a competitive alternative to equities.

Another factor supporting the current rally is that flows into equity funds are only just beginning. The first parts of previous rallies have been times of equity outflows. However, as stock indices rise, investors begin to participate. There have been inflows into global equity funds in both January and February. In the past equity fund flows have helped sustain the rally for longer.

Investors are understandably worried about how the Eurozone crisis will progress, but the liquidity provided by the central bank seems to have eased investors' concerns about the tail risks. Strong macro data in the US have also helped offset the uncertainties coming out of Eurozone. In addition, cheap valuations limit the downside risk when pullbacks occur. Even after the 20% increase, global equities are trading at 1.6x P/BV which is close to the lowest level in 30 years. The long-term average P/BV is 2.1.

Our key regional and global sector recommendations are summarised in Figure 53. We remain Overweight Global Emerging Markets. Despite a strong start to 2012, valuations are still attractive in EM and the region should benefit from easier monetary policy this year. We are also Overweight Japan. Japanese stocks are trading at valuations last seen during the 2008/09 bear market at around 1x book value. We favour EM plays in the developed world. We are Overweight the UK, as companies have a heavy exposure to Emerging Markets. Another reason to be positive on UK equities is that Bank of England is currently one of the most aggressive major central banks in the world in terms of policy easing. They have just announced another £50bn of QE. This should be a positive for risky assets like equities. We are Neutral on Europe ex UK equities. While sovereign concerns will continue to weigh on growth, ongoing liquidity provisions by the central bank should help support equity markets. We also remain Neutral on Australia. We are Underweight the US as it is expensive relative to other equity markets where we see better opportunities.

Figure 52. Strategists' forecasts

Region	Index	Current Level (16 Feb 12)	End 2012 Target	Exp Gain (%)
US	S&P 500	1358	1425	5%
Pan Euro	DJ Stoxx600	264	285	8%
UK	FTSE 100	5885	6200	5%
Japan	Topix	800	870	9%
Asia xJpn	MSCI Asia x JP	524	575	10%
Australia	S&P/ASX 200	4182	4750	14%
GEMs	MSCI EM	1049	1225	17%
LATAM	MSCI Latam	4196	4900	17%
CEEMEA	MSCI EM EMEA	346	350	1%
Global	**MSCI ACWI**	**327**	**360**	**10%**

Source: MSCI, CIRA

Our global sector strategy has a more cyclical/pro-beta tilt. This is consistent with our positive view on markets. We are Overweight Financials. Despite the strong rally YTD, the sector continues to trade at a considerable discount. We remain Overweight IT and Consumer Staples. These sectors have solid earnings momentum and they are strong de-equitisers. Consumer Staples companies generate much of their growth in emerging economies, which makes the sector attractive. Consumer Discretionary is our least preferred cyclical. We are Underweight Healthcare as valuations look unattractive. We are also Underweight Utilities. This defensive sector, hampered by regulatory issues, should continue to be left behind as markets rise.

Figure 53. Regional And Global Sector Recommendations

Overweight	Neutral	Underweight
Global Emerging Markets	Australia	US
Asia Pac ex Japan	Europe ex-UK	
Japan		
UK		

Overweight	Neutral	Underweight
Consumer Staples	Energy	Consumer Disc.
Financials	Industrials	Health Care
IT	Materials	Utilities
	Telecoms	

Source: CIRA

Securitized Products Strategy

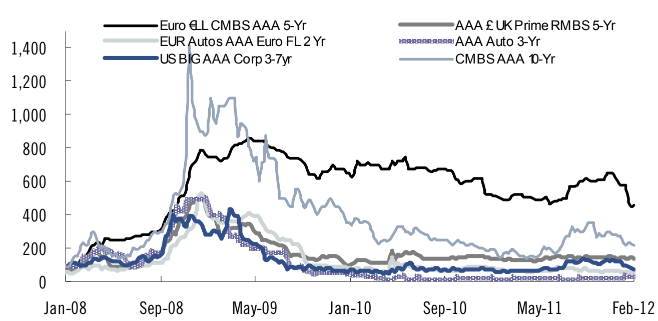
Mary Kane
+1 (212) 816-8409
mary.e.kane@citi.com

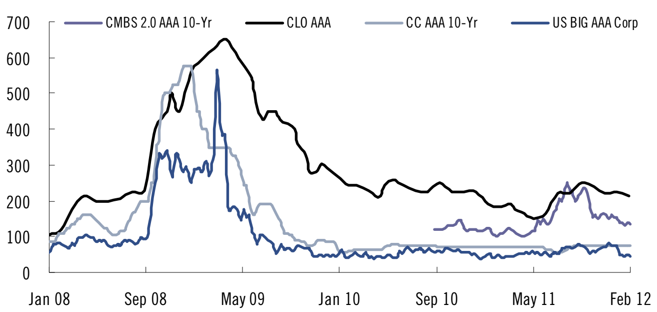
Stav Gaon
+1 (212) 816-3233
stav.gaon@citi.com

Jeff Berenbaum
+1 (212) 816-8399
jeffrey.s.berenbaum@citi.com

Selective trades in off-the-run sectors offer value, as the recent market rally leaves relatively limited upside in core sectors, such as generic triple-A ABS or CMBS dupers. Sustaining the positive momentum off the Maiden Lane II bid list and successful ASF West Conference, markets are active, and spreads are grinding tighter. Indeed, this year's big story so far has been the relative lack of negative news. Markets have generally rallied strongly since the beginning of the year after a weak second half in 2011. US CMBS, for example, saw several weeks of robust trading activity with dupers and AMs coming in YTD 65bp and 190bp, respectively. In non-agency, the 2007-vintage Option ARM SSNR have rallied by about 5 points and now trade in the high 50s. Numerous new issue ABS transactions have priced at the tighter end of price guidance and upsized. We also observe this trend in the new issue UK RMBS market.

Figure 54. Selected Securitized Products Sectors — Spread Performance, Jan 08-Feb 12





Source: Citi Investment Research and Analysis

We continue to recommend market weights across several securitized sectors, including US ABS and European Securitized products. Despite the limited potential for further tightening, we think the downside risk is relatively limited as well because the demand for high quality, short fixed income assets remains strong. Market weighting the ABS index, for example, has also been an effective strategy for dealing with market volatility for the past several years.

Selective Opportunities for Spread Pick Up

For spread pick ups, our strategists recommend several non-core or off-the-run sectors. In US ABS, our top pick is auto subordinates. We also overweight equipment ABS and like dealer floorplan and private label credit card ABS triple-As. In Europe we like first-pay short WAL UK nonconforming bonds. We summarize our recommendations as follows:

- **US ABS top pick — auto subordinates.** The sector appears conspicuously cheap to the historical 10YR adjusted mean spread. Current spreads range from swaps + 150—225bp for 3YR single-A and triple-B auto ABS. The pickups to their 10YR means are also persuasive (115–134bp), in our view.
- **Equipment ABS overweight.** Equipment ABS picks up 15bp to auto ABS, which is attractive to pre-crisis spread differentials. 3YR triple-A equipment ABS spreads were flat or negative to auto ABS for a good part of the Feb 07–Dec 08 period.
- **European off-the-run diversification.** Several off-the-run sectors offer value in our view. We like first-pay short WAL UK nonconforming bonds at LIBOR +

320bp, offering a pickup of 165bp over UK prime RMBS. Older vintage Spanish RMBS with enhanced levels of collateral protection are attractive, in our view. We also like select opportunities in senior CMBS bonds such as German multifamily at LIBOR + 300– 600bp.

- **UK Prime Attractive.** UK prime RMBS looks attractive in comparison to our 7YR average spread target. The sector trades 35bp wider than the spread target and offers upside potential in our view.
- **Cheap CLO Debt.** CLO debt is still cheap to loans. Loan and HY investors should therefore also be looking at CLO tranches as a relative value way to invest in their markets. A way of capturing this value is to re-allocate some of the money dedicated to double-B loans to mezz CLO debt (typically triple- and double-Bs).

Retention Rules Likely Pushed Back, but is the Finish Line in Sight?

One lingering uncertainty is the regulatory overhang, and regulatory concerns should continue to induce some of the market volatility we expect in the coming months. As such, the market remains closely attuned to any new regulatory developments. In late January market participants received some fresh indications about the timing of getting more clarity on the regulatory front. At ASF West, one of the regulators suggested that they are hoping to wrap up all rulemaking during 2012. Separately, in a CREFC update call, speakers indicated that the next official communication on the risk retention rules will likely be pushed back to the second quarter from the first quarter.[8]

ASF West and CREFC addressed key areas of rulemaking focus: 1) risk retention (including premium capture), 2) risk-based capital and alternatives to credit ratings, 3) Volcker rule, 4) conflicts of interest, and 5) swaps and other derivatives.

Overall, it appears that rule-makers are well-intentioned. But it is likely that some unintended consequences will develop from the new regulations. It is therefore incumbent on market players to continue to provide constructive input to the rulemakers. The effects will influence all market participants, and not just the banks.

Sector Relative Value and Allocation Recommendations

Our securitized products strategists have mixed views on the market, ranging from bullish to neutral, and Figure 55 shows Citi strategists' recommendations for major structured products sectors on a scale of -3 (maximally bearish) to +3 (maximally bullish). The table also incorporates the strategists' most current thinking about value and presents one or two trade ideas.

Figure 55. Sector Relative Value and Asset Allocation Recommendations — Selected Sectors, February 2012

Sector	Strategist Recommendation	Spreads Relative to Long-Term Averages	Comments
CABS	0	Fair	Remain market weighted. Subordinate auto ABS is our top pick. We also like equipment ABS.
CMBS	+0	Fair	Most CMBS sectors are now in line with our most likely 2012 spread targets, which assume a level of volatility that is comparable to the 2011 average. Volatility has retreated a bit, but further tightening is unlikely until market conditions demonstrate a more sustainable stability.
Agency MBS	+1	Rich	Mortgage valuations are rich to rate levels and volatility. However, we see no likely catalyst for basis cheapening on the horizon. We prefer 15yr MBS to 30yr and conventionals over Ginnies.
European Securitized Products	+	Cheap to Fair	Market weighted. Like stable, short sectors, combined with select off-the-run opportunities. We like autos, UK Credit Cards, UK prime RMBS, with higher yielding CMBS seniors and off-the-run opportunities in first pay short WAL UK NCRMBS, and older vintage Spanish RMBS. We expect stable performance from core sectors in volatile markets..

Source: Citi Investment Research and Analysis

[8] For further details please see: "Retention Rules Likely Pushed Back, but is the Finish Line in Sight?," Citi, January 27, 2012.

Commodity Outlook and Forecast

Daniel P. Ahn
(212) 723-3612
daniel.p.ahn@citi.com

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

Commodity markets have been remarkably firm since the beginning of 2012, benefiting from a broad rally begun in January across most risk assets especially equities thanks to greater economic optimism and accommodative stances by monetary policymakers. The resilience has been even more impressive considering relative US dollar strength since 2H'11 (+6.7%), especially vis-à-vis the Euro (+9.5%) which has helped push locally denominated prices for fuel and agriculture to near record high nominal levels across the G7 and emerging markets. Tail-risks to supply—particularly for crude oil and to a lesser extent agriculture—have also buttressed markets despite bearish fundamental official agency supply/demand projections from the IEA and USDA. But questions remain over the sustainability of the rally and the point where elevated commodity prices can jeopardize the economic resilience that helped cause higher prices in the first place.

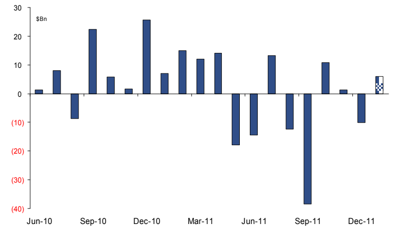
Figure 56. Commodity Price Forecast*

			Forecasts				
		Recent Spot	0-3M	6-12M	5Y Cyclical	2012E	2013E
Energy							
NYMEX WTI	USD/bbl	103.2	95.0	100.0	81.0	100.0	113.0
ICE Brent	USD/bbl	119.6	105.0	110.0	85.0	110.0	120.0
Henry Hub Natural Gas	USD/MMBtu	2.7	2.5	3.1	N/A	3.3	3.6
Base Metals							
LME Aluminum	USD/MT	2,164	2,100	2,350	2,500	2,275	2,525
LME Copper	USD/MT	8,176	7,000	8,300	7,500	7,825	8,525
LME Lead	USD/MT	2,045	1,950	2,325	2,300	2,150	2,400
LME Nickel	USD/MT	19,625	20,000	19,750	22,000	19,500	22,820
LME Tin	USD/MT	23,465	19,500	23,250	24,500	22,125	25,700
LME Zinc	USD/MT	1,945	1,900	2,125	2,300	2,050	2,295
Precious Metals							
Gold	USD/T. oz	1,725	1,675	1,750	1,050	1,710	1,910
Silver	USD/T. oz	33	31	29	15	30	27
Platinum	USD/T. oz	1,634	1,555	1,665	1,500	1,610	1,675
Palladium	USD/T. oz	688	720	830	600	775	925
Bulk Commodities							
Hard Coking Coal (benchmark Asia)	USD/MT	285	235	270	220	256	248
Thermal Coal (API2)	USD/MT	103	118	130	105	120	139
Iron Ore Spot (TSI)	USD/MT	134	125	165	100	149	135
Agriculture							
Corn	USD/bu	642	620	628	N/A	635	N/A
Soybeans	USD/bu	1,268	1,200	1,265	N/A	1,240	N/A
Wheat	USD/bu	644	610	621	N/A	625	N/A
Rice	USD/cwt	14	14.9	15.1	N/A	15.1	N/A
Cotton	USD/lb	91	95	85	N/A	90	N/A
Sugar	USD/lb	25	23	22	N/A	22	N/A
Coffee	USD/lb	200	210	200	N/A	210	N/A
Cocoa	USD/MT	2,389	2,200	2,400	N/A	2,375	N/A

Source: CIRA, *Subject to change and revision. Forecasts updated as of 8 Jan 2012

The benchmark DJ-UBS Total Return Index has gained 3.6% and the 'energy-heavy' SPGSCITR Index is 6% higher; market volatility has also steadily subsided to pre-3Q'11 levels for equities, currencies, petroleum markets and IG corporate credit, helping boost sentiment. Initial estimates point to approximately $5.9Bn in commodity asset net inflows during January's risk rally with $1.5Bn in new ETF purchases and over $4Bn in index swap inflows as compared to an assessed $10.1Bn in aggregate commodity outflows during the month of December.

Figure 57. Net Commodity Flows: Index, ETP

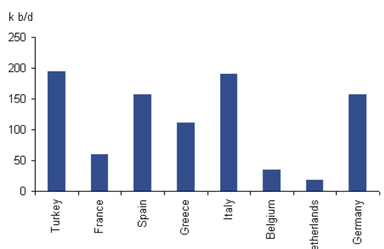


Source: CIRA estimates

Our outlook for 2012 commodity returns and flows remains constructive following a year that saw net outflows of $19.6Bn and saw negative total returns for nearly all commodities sans crude oil, gold and some key grains. The optimistic view is driven by a base case scenario of stable growth in the OECD ex-Europe, a soft-landing in China and the potential for further policy stimulus in the Eurozone, China (in advance of the October leadership change) and possibly the US.

Crude oil markets are strong (particularly waterborne streams) despite the relatively bearish fundamental picture painted by the IEA which revised down its cal'12 consumption growth forecast in February by 250-k b/d to +830-k b/d (in line with Citi's base case of +800-k b/d); the agencies have also lowered the projected 'call on OPEC' to levels that imply significant stock builds this year, near 1-m b/d assuming current levels of production of 30.9-m b/d. But despite official forecasts of weak balances and inventory builds, there does not appear to be an indication of this in the physical markets. Rather, petroleum markets look fundamentally bullish; possibly leading to a case where the supply outages which are known (and price positive) could be further strained by demand surprising to the upside.

Figure 58. Iran Petroleum Imports by EU

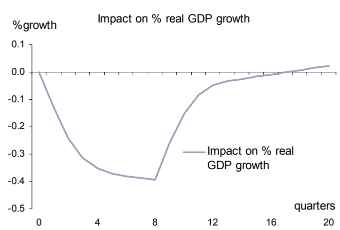


Source: IEA, CIRA

Flaring geopolitical tension from Iran, Iraq, Sudan, Yemen and West Africa has only helped the bullish case, most visibly seen with the EU embargo on Iranian barrels effective 1st July and Iran's response in pre-empting oil sales to UK and France immediately, pushing flat prices to year-to-date highs and at the top-end of our $100-$120/bbl range (with meaningful potential to spike higher).

Estimates for the size of an oil price spike sufficient to break the world's fragile economic recovery can vary widely but our estimates suggest a 10% increase in real crude oil prices causing roughly 40 basis points in economic contraction in the US, which is in line with separate estimates by the IMF. Given Citi's forecasts for real GDP growth in the US at about 2% for 2012, one can approximate that a sustained 50% increase in oil prices (or roughly $175 for Brent) would be sufficient to drive another recession. However, the impact is nonlinear and more severe oil price spikes can cause disproportionately more economic pain.

Figure 59. Impact of a 10% increase in real oil prices on US GDP

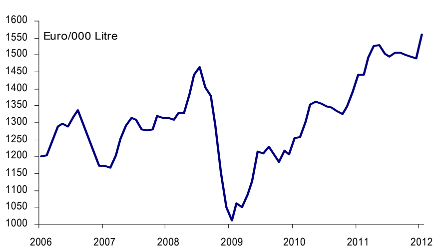


Source: Citi Investment Research and Analysis

February has also seen more accommodative monetary policy by the world's central banks. Following the Fed's forecast to keep rates low to 2014 and another round of QE by the Bank of England, this month saw the Bank of Japan and the People's Bank of China also cut rates or relax reserve requirements, thus helping in particular the precious metals whose returns strongly depend on low rates.

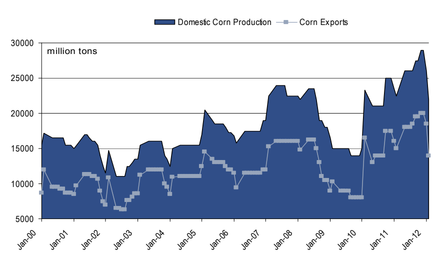
Agriculture commodities may also benefit from supply and geopolitical tail risks and we remain bullish the sector for 1H'12, especially for corn which could spike as high as $7/bu. Initial assessments pointing to a 30-m ton crop year for the world's second largest net exporter, Argentina, were reduced to 23-m tons by the local government, causing a 30% decline in available 11/12 corn exports since releasing our 2012 base case.

Figure 60. EA-27 Gasoline Pump Prices



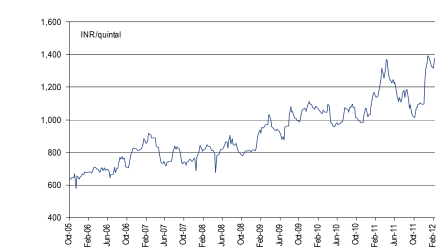
Source: European Commission, CIRA

Figure 61. Argentina Corn Production, Exports



Source: USDA,CIRA

Figure 62. India Wholesale Retail Corn Prices



Source: Commodity India, CIRA

Citi Foreign Exchange Forecasts

Editor: Jeremy Hale †**
(44-20) 7986-9465
jeremy.hale@citi.com

† This author is not an independent research analyst and may have knowledge of the Firm's positions and/or the Firm's interest in one or more of the securities referenced herein.

Market Commentary

This market commentary has been prepared by a member of the Institutional Clients Group of Citi. The information in this communication is not intended to constitute "research" as that term is defined by applicable regulations.

** For specific trade ideas associated with this sector review, please contact the contributors listed at the end of this piece

- Stronger risk appetite, buoyed by easy money from Central Banks, is negative USD
- There is, in reality, little to choose between major industrialised country currencies, with the bigger picture likely to be the use of USD, EUR, JPY, CHF and GBP to finance holdings of growth and EM currencies
- But ex ante downwards pressure on the USD et al vs EM FX may be resisted given reduced inflation concerns and greater growth risks in some countries. We expect a combination of intervention and rate cuts to limit ex post EM FX appreciation
- Idiosyncratic factors also count both between countries and regions. We see Asia outperforming other EM regions medium term but BRL is forecast to give best returns relative to forwards and HUF in CEEMEA should perform well, albeit against a weak EUR

These forecasts are a joint venture between Citi's foreign exchange, global macro and technical strategy groups and our developed and emerging markets economists. Under normal circumstances, we expect to present frecasts on a monthly schedule although we may offer intra month updates if circumstances dictate.

While these forecasts should be considered the best guide to Citi's short to medium term views on the outlook for the exchange rates covered, individual analysts within various strategy teams may offer separate trade ideas in spot, forward, options or futures when this seems appropriate for technical, tactical or strategic reasons.

Figure 63. Citi FX Forecasts

		Market data			Forecasts			Returns**	
		spot	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term	3 mos rtn	12 mos rtn
G10									
Euro	EURUSD	1.33	1.33	1.33	1.34	1.25	1.30	1.0%	-6.0%
Japanese yen	USDJPY	79	79	79	81	78	78	2.0%	-1.2%
British Pound	GBPUSD	1.59	1.58	1.58	1.60	1.56	1.65	0.7%	-1.1%
Swiss Franc	USDCHF	0.91	0.91	0.90	0.90	0.98	0.96	-0.8%	7.9%
Australian Dollar	AUDUSD	1.08	1.07	1.04	1.09	1.00	0.90	2.1%	-3.5%
New Zealand Dollar	NZDUSD	0.84	0.84	0.82	0.86	0.75	0.63	2.9%	-8.5%
Canadian Dollar	USDCAD	0.99	0.99	1.00	0.98	1.00	0.97	-1.4%	0.0%
Dollar Index*	DXY	78.87	78.88	78.80	78.41	82.01	79.27	-0.6%	4.1%
G10 Crosses									
Japanese yen	EURJPY	105	105	105	109	98	101	3.1%	-7.2%
Swiss Franc	EURCHF	1.21	1.21	1.20	1.21	1.22	1.25	0.2%	1.4%
British Pound	EURGBP	0.84	0.84	0.84	0.84	0.80	0.79	0.3%	-5.0%
Swedish Krona	EURSEK	8.82	8.85	8.96	8.80	8.80	8.75	-0.6%	-1.7%
Norwegian Krone	EURNOK	7.50	7.53	7.64	7.50	7.50	7.50	-0.4%	-1.9%
Norwegian Krone	NOKSEK	1.18	1.18	1.17	1.17	1.17	1.17	-0.2%	0.1%
Australian Dollar	AUDNZD	1.28	1.28	1.26	1.27	1.33	1.43	-0.7%	5.5%
Australian Dollar	AUDJPY	86	85	82	88	78	70	4.2%	-4.7%
Asia									
Chinese Renminbi	USDCNY	6.30	6.29	6.28	6.28	6.17	6.01	-0.2%	-1.7%
Hong Kong Dollar	USDHKD	7.75	7.75	7.75	7.75	7.76	7.75	0.0%	0.1%
Indonesian Rupiah	USDIDR	9011	9116	9412	9100	9074	8900	-0.2%	-3.6%
Indian Rupee	USDINR	49.3	50.3	52.2	50.3	49.8	48.5	0.1%	-4.7%
Korean Won	USDKRW	1123	1129	1142	1135	1090	1020	0.5%	-4.6%
Malaysian Ringgit	USDMYR	3.02	3.04	3.08	3.10	2.99	2.89	1.9%	-2.9%
Philippine Peso	USDPHP	42.6	42.7	42.9	43.0	42.0	41.5	0.8%	-2.1%
Singapore Dollar	USDSGD	1.25	1.25	1.25	1.28	1.23	1.19	2.3%	-1.0%
Thai Baht	USDTHB	30.8	30.9	31.2	31.0	30.3	30.0	0.4%	-3.1%
Taiwan Dollar	USDTWD	29.5	29.5	29.2	29.9	29.0	28.2	1.4%	-0.6%
EMEA									
Czech Koruna	EURCZK	24.9	24.9	25.0	24.9	25.4	24.0	-0.2%	1.7%
Hungarian Forint	EURHUF	288	291	301	285	275	285	-2.2%	-8.7%
Polish Zloty	EURPLN	4.17	4.21	4.33	4.10	4.20	3.90	-2.7%	-2.9%
Israeli Shekel	USDILS	3.73	3.74	3.78	3.85	3.95	3.90	2.8%	4.6%
Russian Ruble	USDRUB	29.8	30.1	31.3	29.5	33.3	32.2	-2.1%	6.4%
Russian Ruble Baske	RUB	34.1	34.5	35.9	34.0	37.0	36.5	-1.6%	3.1%
Turkish Lira	USDTRY	1.74	1.77	1.87	1.74	1.82	1.80	-2.0%	-2.6%
South African Rand	USDZAR	7.66	7.76	8.09	7.55	8.10	8.80	-2.8%	0.2%
LATAM									
Brazilian Real	USDBRL	1.71	1.75	1.84	1.71	1.70	1.65	-2.0%	-7.4%
Chilean Peso	USDCLP	482	487	500	480	500	490	-1.4%	0.0%
Mexican Peso	USDMXN	12.7	12.8	13.1	12.6	12.8	12.2	-1.8%	-2.6%
Colombian Peso	USDCOP	1779	1796	1836	1787	1800	1850	-0.5%	-2.0%

* The DXY forecasts are implied from the forecasts of the constituent crosses.
** Returns are relative to forwards

Source: Citi Investment Research and Analysis

Overview

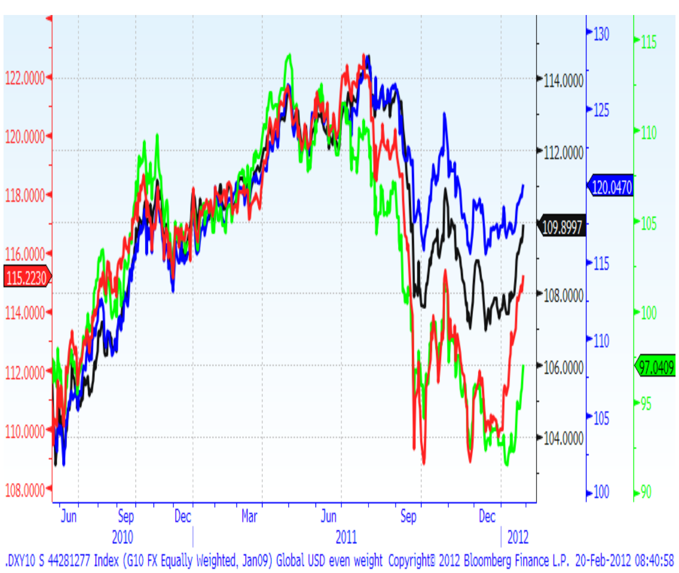
The USD has been broadly weaker since our last *Forecasts* (see Figure 64). Encouraging for this trend, risk appetite has markedly improved and the USD continues to tend towards weakness in these periods of asset market strength. Economic data around the industrialised world coming in better than expected and generalised monetary policy easing by major Central Banks have all helped global investor sentiment and therefore hurt the USD. Over the past month, for example, the Fed has extended its ZIRP conditional commitment to 2014, the Bank of England and Bank of Japan have extended or increased QE and there has also been some monetary easing in major EMs including RRR cuts from the PBoC.

We see little to reverse this Central Bank support to risk appetite in the immediate future and our forecasts therefore reflect this in a generally softer USD across the board over 0-3 months. In reality though, we find it hard to distinguish between the currencies of the developed countries at this point. Investors are likely to see USD, JPY, CHF and GBP as broadly interchangeable as funding currencies.

More generally, EM policymakers will have to decide how to respond to ex ante USD weakness. Last year, many were relaxed about FX appreciation given inflation concerns but these worries are receding fast given favourable base effects in food prices. As a result, some policymakers may step up interventions or rate cuts or both. This means ex post USD weakness may be reduced.

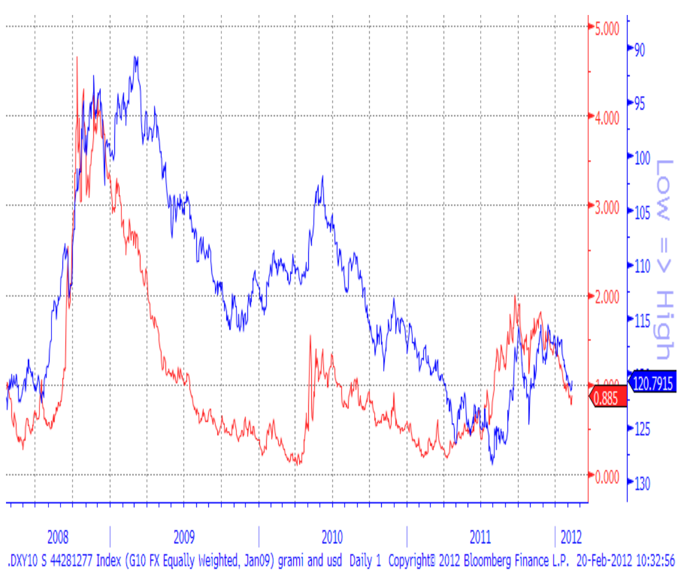
Longer term, there are both mainstream and tail risks. Amongst the former, the latest tranche of the Greek bailout will likely not be the last needed. Ongoing uncertainty around the stability of EMU is likely. As for tail risks, we worry about: (i) US economic weakness in 2013 if fiscal policy agreement is not reached after Presidential Elections; (ii) China's credit, money and real estate boom bust; and (iii) geopolitics in Iran and other Middle East countries. Our forecasts build in some probability of volatility from these factors and USD performance is mixed over 6-12 months with some appreciation vs. G10 and CEEMEA but downside elsewhere.

Figure 64. USD vs. Asia (Black), G10 (Blue), LATAM (Red), CEEMEA (Green)



Sources: Citi and Bloomberg

Figure 65. USD vs G10 FX (Blue) Follows Overall Risk Appetite (GRAMI, Red)



Sources: Citi and Bloomberg

G10 Exchange Rates

EUR/USD — Short term upside possible

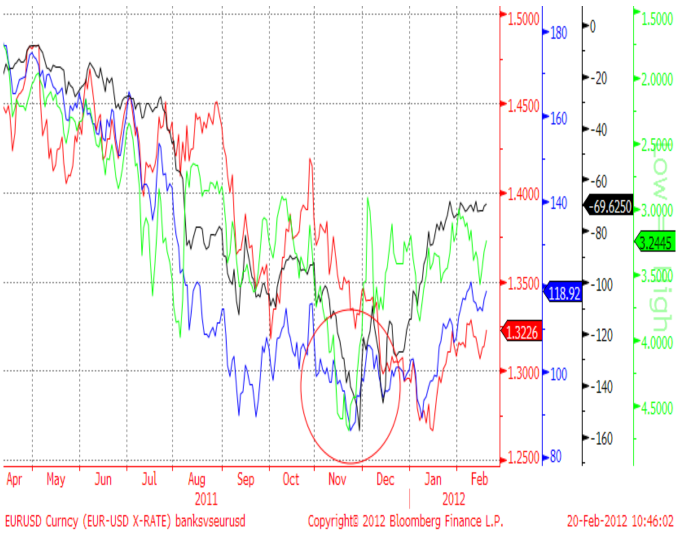
EUR/USD continues to be torn between lower risk in EMU asset markets (as shown in reductions in the basis for USD funding, lower risk reversal skew, tighter bond yield spreads/ lower CDS and better financial equity prices) vs. the continued downward pressure on front end rates in EMU resulting from the ECB's more dovish stance and related narrower rate differentials. What is good for EMU — a very easy ECB — may be less helpful for the EUR depending on other Central Banks' actions.

There is no doubt that over the turn of the year, narrower rate differentials drove EUR lower despite earlier signs risk was improving for EMU asset markets. Figure 66 shows that the low for EMU bank stocks, the wide for the basis and the peak in Spain-Germany 10y spreads occurred in late November yet the EUR rally only started 16 January.

This rebound in EUR was then helped by perceived Fed dovishness at the January FOMC meeting, stabilising the oversold single currency as rate differentials moved higher for a while

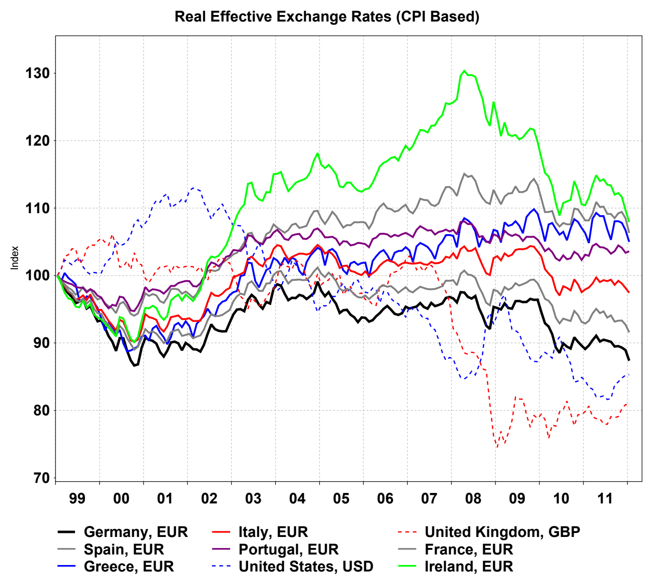
Short term, we think this EUR/USD rally could extend a little further in the context of higher risk appetite, generalised USD weakness and assuming no disappointments near term over the Greek second bail out discussions and other related periphery risks.

Figure 66. EUR/USD (Red) vs. EMU Bank Stocks (Blue), the EUR/USD Basis Swap (Black, Inverted) and Spanish-German 10y Bond Spreads (Green, Inverted)



Source: Bloomberg

Figure 67. Real Effective Exchange Rates



Sources: Reuters EcoWin

Over 6-12 months, we still forecast EUR/USD lower since any forecast has to put some weight on tail risks such as China, Iran and EMU break up all of which would likely be USD friendly. Furthermore, EUR/USD is likely to be driven lower over this time frame by further ECB rate cuts and additional liquidity support via 3y LTROs and other operations.

Euro Area economic underperformance in 2012 will be quite marked, almost certainly reducing further front end rate differentials. Furthermore, while the lack of competitiveness of periphery EMU countries vs. the core (Figure 67) is not addressed by generalised EUR weakness, it does at least help broader measures of competitiveness and a weaker EUR may yet be one way to mitigate adverse effects of fiscal tightening in these countries longer term.

Overall, our 0-3 and 6-12 months forecasts are 1.34 and 1.25 respectively.

Yen — USD/JPY up a bit near term but overshooting

The BoJ unexpectedly announced new monetary policy measures on 14 February. These included additional QE of Y10trn (total up to Y65trn), or around $125bn, and an inflation target of 1%. The knee jerk reaction has been to weaken the JPY since these moves were unanticipated and risk appetite has been strong, normally correlating negatively with JPY.

We are sceptical still that the USD/JPY rally will proceed far over the medium term. For one thing, US short term rates remain one of the key JPY drivers and the exchange rate has already overshot fair value on this basis (Figure 68). Furthermore, it is pretty clear from the Fed that materially higher short rates are years away.

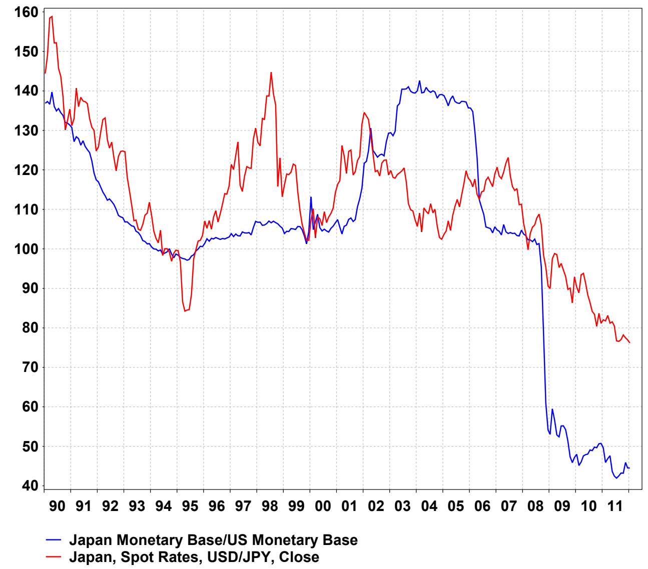
For another, the size of the BoJ announcement, while a surprise to expectations, was still very small. For example, the duration we estimate that operation twist is removing in the UST market is about 3.5 times the size of the BoJ proposal. More generally, the Fed remains likely to expand its balance sheet much more aggressively than the BoJ (Figure 69) a medium term negative for USD/JPY.

As a result, we expect modest near term upside in the exchange rate while risk appetite is strong but that over the medium term USD/JPY is flat to slightly lower again. Our point forecasts are: 0-3 months 81 and 6-12 months 78.

Figure 68. USD/JPY: Regressed on US-Japan Rate Differentials

Source: Reuters EcoWin and Citi

Figure 69. Relative Monetary Policy Still Much Looser in the US Than Japan



Source: Reuters EcoWin and Citi

Dollar Bloc — AUD Expensive, But Near Term Correction Unlikely

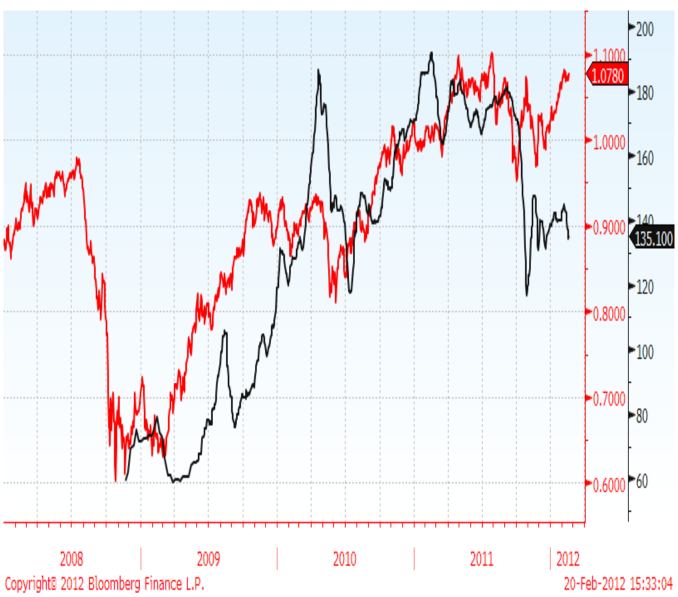
AUD looks expensive by most metrics. Key market drivers of AUD historically — carry, commodity prices, Asian currencies and global risk appetite — imply that AUD/USD should be closer to parity. For example, a regression on 2-year rate differentials predicts the cross should currently be 0.89. As Figure 70 shows, AUD also appears to have ignored, so far, the sharp fall in key commodity prices such as Iron Ore.

But if risk appetite remains firm in the near term, as we expect, then AUD may continue to find support. Furthermore, the RBA surprised the market by keeping rates constant at its last meeting after cutting rates twice in late 2011. If global growth expectations stabilise in coming months, there is a good chance that some future rate cuts will be further priced out of markets, which could also limit downside in AUD/USD.

AUD/USD trended higher from 0.97 in late November to recent levels of around 1.06-1.08. The cross will likely consolidate around these levels in the short run given the competing tensions of, on the one hand, better risk appetite, and on the other hand, valuations and China/Asian risks (see EM Asia section below).

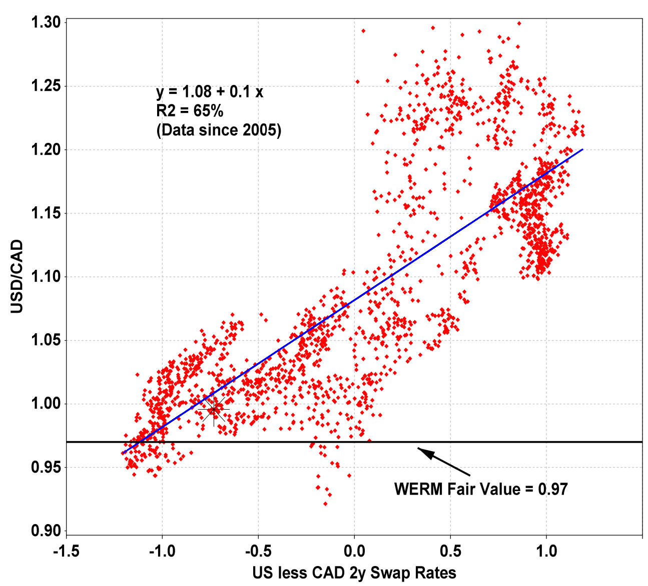
Further out, we expect AUD/USD to come under some pressure in the medium term as risks grow of a sharper sustained slowdown in China due to fallout from the property boom-bust cycle and a collapse in Chinese exports. Our forecast puts the cross at 1.00 in 6-12 months. Long-term fair value for AUD/USD is 0.86 according to our WERM estimates, and even lower on a PPP basis. Yet, a correction in AUD to these levels is unlikely to occur until there is a much sharper slowdown in global/Asian growth or a collapse in commodity prices, none of which is in Citi's baseline forecasts for the next few years.

Figure 70. AUD/USD (Red) vs. Iron Ore Prices (Black)



Bloomberg and Citi

Figure 71. USD/CAD vs. 2y Rate Differentials



Source: Citi Investment Research and Analysis

To a large extent, a similar story can be told about NZD. Along with AUD, it remains one of the most overvalued currencies (our WERM estimate puts fair value for NZD/USD at 0.62). The cross still looks rich to New Zealand-US rate differentials despite recent widening in the latter. And while the domestic economic data has recently come out better than consensus expectations, the difference between Citi's ESIs for New Zealand and the US remains in negative territory. Yet, stronger risk appetite globally will likely lend some support to NZD along with other high carry/commodity currencies.

Thus, as in the case of AUD, our forecasts reflect consolidation of NZD/USD around recent levels over the next 0-3 months and some depreciation in the medium term to around 0.75. These numbers imply AUD/NZD is expected to fall slightly in the near term, then rebound to 1.33 in 6-12 months.

Following successively lower peaks between 1.06 and 1.04 on rallies between September and December, USD/CAD has recently drifted downwards and settled close to parity. CAD could continue to benefit from further improvements in risk appetite. Certainly, valuation is one positive in favour of CAD compared to AUD or NZD. For instance, CAD has continued to lose ground against AUD despite more favourable trends in rate differentials and the terms of trade.

However, CAD has generally been lower beta than its commodity-currency counterparts. Add to this concerns expressed by the Bank of Canada about currency strength, and we see upside potential in CAD to be rather limited. At present, USD/CAD is currently wedged between the 1.01 level predicted by a regression on rate differentials and our WERM long-term fair value estimate of 0.97 (Figure 71). All told, this suggests that the cross will probably be range-bound in the next few months, with perhaps a small downwards bias, and should stabilise close to parity in the medium term.

European Crosses

GBP — Stable vs. USD & EUR Basket

The most striking fact about Sterling since mid-2010 has been its remarkable stability against an equal-weighted basket of USD and EUR (Figure 72). This is unlikely to change anytime soon.

Sterling has struggled with conflicting forces for a while: cheap valuations vs. poor economic performance and monetary policy easing/ fiscal tightening. GBP remains the cheapest G10 currency, with the WERM estimate putting fair value on Cable at 1.73 and EUR/GBP at 0.79.

On the other hand, ongoing fears about the strength of the UK recovery and the prospect of significant additional monetary easing by the Bank Of England (as a kind of policy quid pro quo for fiscal tightening) have weighed on Sterling. Citi expects the MPC to increase the amount of the QE programme to £500bn in total by early next year. Tight fiscal policy and easy money is normally currency unfriendly and policymakers probably see stable GBP at competitive levels as part of the policy package.

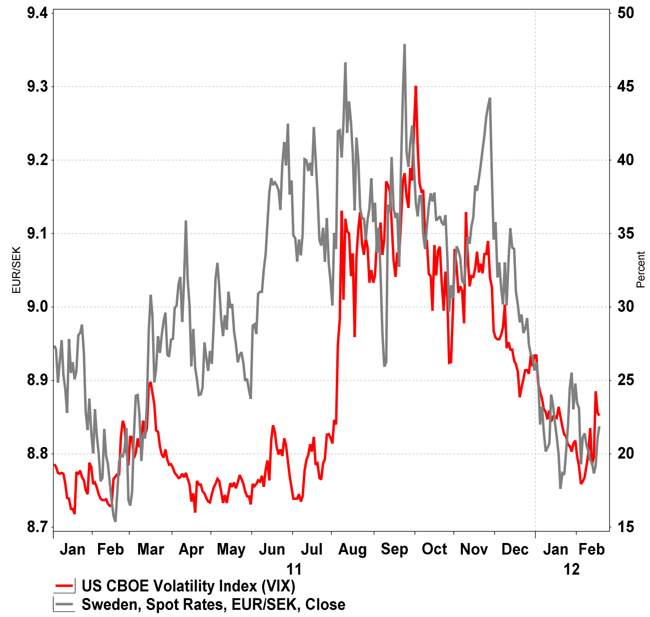
With valuation supportive, however, and monetary policies elsewhere getting easier too, notably in the US and Euro Area, we expect GBP stability broadly to continue.

Our forecasts show EUR/GBP tracking what happens in EUR/USD over the short and medium term, thus falling towards 0.80 over 6-12 months. GBP/USD loses ground over the same time horizon, leaving the 50:50 basket roughly stable.

Figure 72. GBP vs. Average of USD and EUR (Higher = Stronger GBP)

Source: Bloomberg and Citi

Figure 73. EUR/SEK vs. VIX



Source: Reuters EcoWin

Scandis — Risk-On Supportive But Close To Fair Value

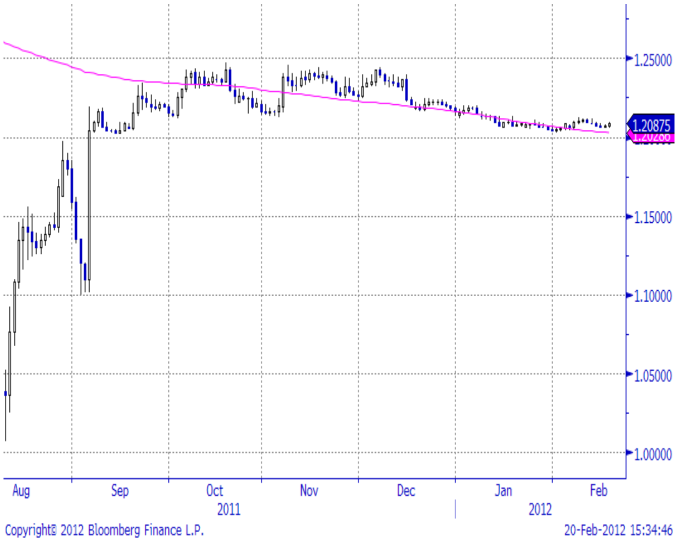
EUR/SEK has fallen sharply since late November last year, in line with better global risk appetite. The cross dropped from around 9.30 to a low below 8.80 in late January and has traded broadly sideways since. SEK should find further support if risky assets remain bid as we expect. Risk appetite correlates with SEK rallies — Figure 73 shows that lower implied equity volatilities tend to coincide with lower EUR/SEK.

Nonetheless, noting that the cross is now very close to our long term WERM estimate of fair value at 8.75, and SEK also appears slightly rich on rate differentials, Krona appreciation is probably limited from here. Furthermore, Citi's economists forecast policy rates to fall to 1.0% (from 1.50% currently) by mid-year and also expect additional downgrades to the Swedish economic outlook.

Bearing all this in mind, we forecast only slight further SEK appreciation from here.

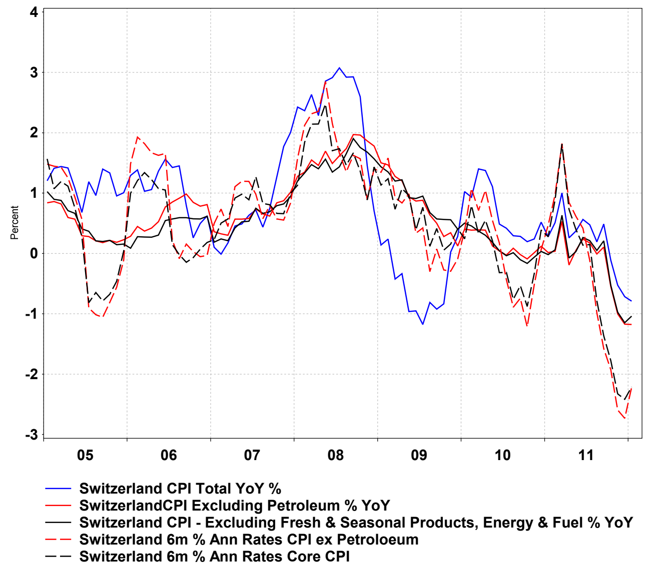
EUR/NOK dropped sharply in recent trading days, testing a nine year low at 7.50 at the time of writing. As a result, NOK/SEK rose since our last forecast round. Better risk appetite should also support the Norwegian Krona, but SEK will likely outperform because it is more sensitive to risk appetite than NOK and NOK is now slightly overvalued relative to our longer term fair value estimate of 7.54. Our forecasts see EUR/NOK close to current spot at around 7.50 in both 0-3 and 6-12 months.

Figure 74. EUR/CHF Approaching Peg With Little Realised Volatility



Source: Bloomberg

Figure 75. Swiss Inflation Goes Negative



Source: Reuters EcoWin

CHF — 1.20 Peg Holds

Since mid-December last year, EUR/CHF has been slowly edging towards it's 1.20 peg, forming a local low at 1.2032 at the beginning of February. While drifting lower in line with its 200d moving average, it has exhibited hardly any realised volatility (Figure 74).

Meanwhile, the Swiss Franc remains highly overvalued according to many metrics (e.g. our EUR/CHF WERM estimate puts long term fair value at 1.37). Furthermore, with deflation risks increasing (Figure 75), it is unlikely that the SNB will baulk anytime soon at the explosive base money growth that results from making the money supply endogenous to the FX market.

While we acknowledge that the resignation of SNB Chairman Hildebrand probably reduces the immediate chances of the SNB increasing the level of the EUR/CHF peg, we expect a continued robust defence of the existing 1.20 floor.

As a result, we have kept our forecasts unchanged this month, expecting EUR/CHF to remain in a tight 1.21-1.22 range in the short to medium term, with a slightly wider range to the upside in the longer term.

EM Exchange Rates

Powerful liquidity injections from major developed central banks means that risk-on probably stays in place near term. *Ex ante*, this favours EM FX, particularly against the US dollar which tends to do poorly in such conditions. So far this year, each of our equally-weighted regional baskets has done better than the dollar (Figure 64).

Relative performances within EM continue to be fragmented, however — both between regional baskets and at the individual country level. For instance: an equally weighted Latam or CEEMEA basket has returned more than twice its Asian equivalent from January 1st to date.

The forecasts presented here reflect a couple of key considerations. The first is that currency markets can't entirely shrug off underlying global macro forces, which include a relatively stronger US, weaker China and still-deep concerns around the European debacle.

The second is policymakers' reaction to *ex ante* dollar strength. Intervention risk to stem currency strength is running high, particularly in export-led Asia and Latam. In CEEMEA, policy makers on balance are intervening (or are likely to) in the opposite direction, to shore up their currencies. EM economies have entered 2012 in strikingly varied conditions and at different points in their respective business cycles reflecting distinct sensitivities to the bigger macro forces.

EM Asia — Weaker, then Stronger

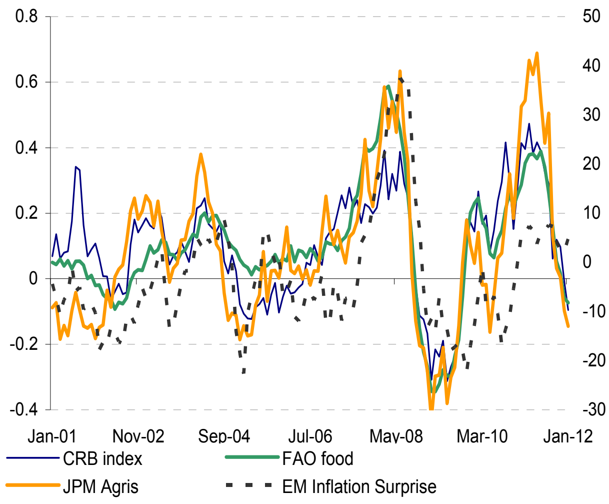
Our forecasts for Asia are for modest weakness in the next three months, followed by strength in the 6-12 month window. Our near term views reflect a combination of two potent factors. The first is proximity to a weakening China. China is an important trading partner for many Asian countries, and CNY provides an important anchor for other Asian FX. Indeed, with a few exceptions, Asian data has generally been weaker than other EM regions.

The second factor that tempers our optimism is that the rally simply looks overdone, particularly in the context of softening real activity. For instance, there is some evidence that inflows into Asia-ex Japan equities so far in 2012 have been greater than in other regions.

For CNY, fresh weakening in both real and monetary data suggests that the currency is kept broadly flat for the next three months at least, and probably beyond. Both M2 and credit growth hit decade lows in January, and narrow M1 money growth, which shares a good relationship with GDP, was weaker still at just 3.1% y/y (Figure 77). China is also amongst the most sensitive EMs to food prices, which weigh a third of its CPI basket. Weaker money together with falling global food price inflation (for the first time since late 2009, see Figure 76) suggests that January's rise in CPI should prove transient. With the balance tilted towards keeping the currency weak to support growth rather than trend appreciation to curb price pressures, our forecasts show CNY at 6.28 vs. USD, 0-3 months ahead.

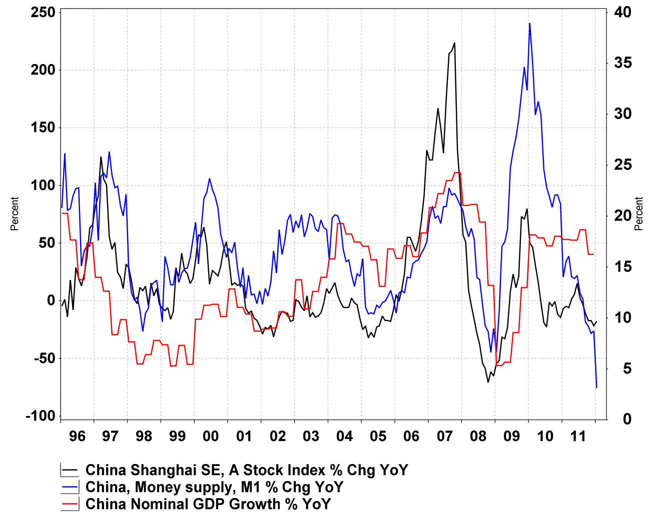
The outlook for KRW is similar. While KRW is cushioned by its "twin surpluses" — both the primary fiscal balance and current account are presently in surplus — this matters more in the medium term. In the interim, much weaker growth, low carry, and an interventionist central bank are likely to keep the KRW low in the near term. Furthermore, aside from Taiwan and Hong Kong, KRW is by far the most sensitive to China. Half of all Korean exports head to China — nearly double the ratio in 2005 — and both the latest trade and GDP data have been very soft. We see USD/KRW at 1135 in the next three months.

Figure 76. Global Food Prices and Citi Inflation Surprises



Source: Citi and Bloomberg

Figure 77. China Looks Weak



Source: Citi and Reuters Ecowin

The other regional exporters — THB, PHP, MYR and TWD — are also forecast to stay relatively weak in the next three months vs. forwards, with TWD underperforming most. As was the case last month, the near term outlook is driven by a combination of already weakening domestic data and our expectation of further softening as China slows early this year. Our projected underperformance of TWD reflects that in addition to poor macro fundamentals, the CBC has perhaps the strongest incentive and willingness to cap TWD strength.

THB is expected to stay flat in the near term, but to hold above 30 for the forecast horizon. The recovery of domestic-focussed manufacturing activity following massive floods last year offsets some of the downside from poor export prospects.

In both the Philippines and Malaysia, however, trade balances have deteriorated perceptibly with no obvious source of domestic support. It is striking how poor export data for the Philippines has been: in 3m/3m terms, seasonally adjusted exports have fallen in each of the last 14 months. As a result, the Philippines' current account position has worsened despite strong end-year remittances. Our forecasts have USD/PHP at 43.0 and 42.0 in 0-3 and 6-12 months, respectively.

MYR, meanwhile, looks stretched to us in the very near term: so far this year MYR has been the next best regional performer after India, and the nominal effective exchange rate is already back to where it was before last September's sell-off. Moreover, disinflation pressures persist, and GDP strength in Q4 is not expected to carry forward to Q1 if the broader region weakens as we expect. Our forecasts show USD/MYR at 3.10 over 0-3 months.

IDR is expected to stand pat at around 9100 in the very near term, in line with what is priced by forwards. Indonesia's current account swung into deficit in 4Q11, which is arguably more negative than it might be elsewhere given healthy surpluses in most of the region. Along with a dovish central bank that has surprised the markets with two cuts already this year, the bias is towards a weaker exchange rate. Our 6-12 month forecast, however, is slightly stronger, reflecting the longer term support of Indonesia's re-rating by Moody's.

The scale of the rally in INR seems out of sync with twin deficits on the current and fiscal accounts, with the latter still deepening, and soft domestic data. Indian industrial production, for instance, fell sharply in both Q2 and Q3; although production was up 0.5% overall after a volatile Q4, this is unlikely to mark the start of a more sustained rally. Until monetary easing begins in earnest, high nominal interest rates of 8.5% and rising real rates (as inflation falls) are expected to continue to choke real activity. Our forecasts have INR oscillating around 50 for the coming twelve months.

CEEMEA — Quirky Policy

High beta CEEMEA FX continues to be a mixed bag, swung heavily by both unfolding news on the Eurozone and local idiosyncrasies. It is difficult to overstate the former: Western European banks own the bulk of the region's banking system (Figure 79), and many smaller countries rely on German/European final demand for growth. Our positive forecasts for at least two CEEMEA currencies — TRY and HUF — reflect radical policies/policy shifts.

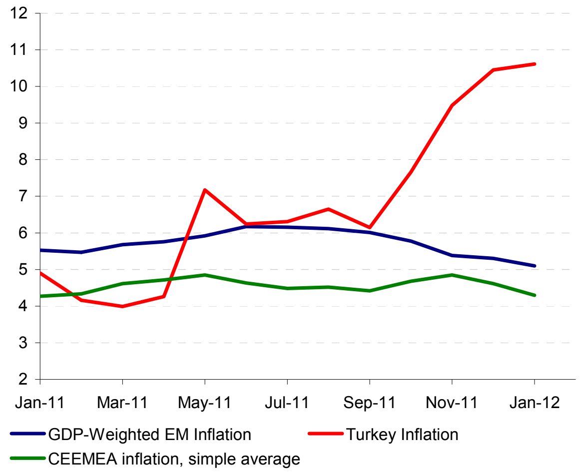
The most notable development in recent weeks has been in Hungary, which has been teetering on the brink of crisis for some months. Hungary has been trapped in a vicious circle of: major domestic imbalances driving sharp sell offs in the exchange rate; dangerously high leverage in foreign exchange in both government and the private sector; a central bank that has been hiking to defend the exchange rate, damaging export-led growth further; and a desperately needed IMF/EMU package that has been constantly postponed, with political discord thrown into the mix.

Two fresh measures from the Hungarian central bank — a 2 year LTRO for banks starting in March, and mortgage bond purchase program — are expected to have a significant positive impact on the currency. An IMF deal also looks much more likely to us now. As such, the HUF, which peaked at 324.2 against the euro in early January, is expected to strengthen throughout the forecast period. We expect the HUF to appreciate to 285 in 0-3 months, and to 275 in the medium term.

PLN should gain from a confluence of positive forces and we forecast EUR/PLN at 4.10 and 4.20 in 0-3 and 6-12 months, respectively. Poland is amongst the least export intensive in its CEEMEA cohort, and continued solid real activity should support the currency. GDP growth, for example, has surprised the consensus to the upside for nine of the last ten quarters. Although high foreign involvement in Polish asset markets does make PLN more vulnerable to shifting global tides, an intervention friendly central bank should stem any sell offs.

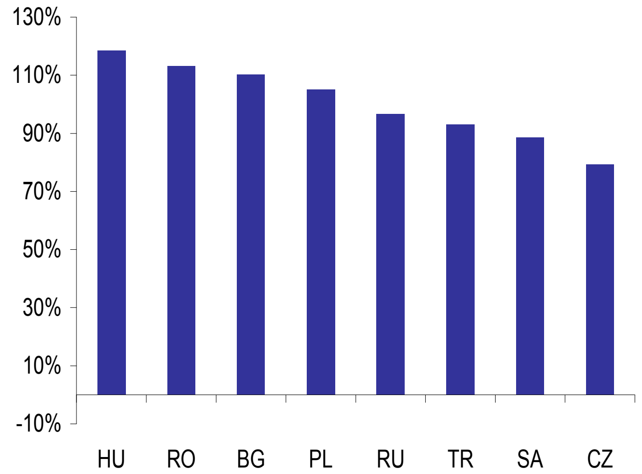
Unlike Poland, the Czech Republic is highly export-dependent, and advance estimates for Q4 GDP showed a small contraction. With low interest rates (0.75%) that are expected to go lower still by mid-year, CZK also doesn't have the carry allure of others in the region. Equally, good fiscal ratios and a broadly balanced current account with a trade surplus should limit the downside, and our forecasts have CZK at 24.9 and 25.4 vs. the euro in the short and medium term respectively.

Figure 78. Turkey Has An Inflation Problem Which the Others Don't



Source: Citi and Bloomberg

Figure 79. European Bank Claims as a Per cent of GDP



Source: CIRA and Bloomberg

The two big carry plays in CEEMEA — TRY and ZAR — are forecast to outperform the region in the next three months, with both returning just over 3% relative to current forwards. TRY also continues to be used as a policy tool to manage a large and growing domestic inflation problem (Figure 78). CPI inflation is presently 10.6% which is the highest since late 2008, and although money growth has slowed, private credit growth, which is its main counterpart, remains very high at 38% in the year to January. So inflation should persist for some time. That said, deepening imbalances, particularly on the current account, are expected to weigh against TRY further out. In the near term, we forecast TRY stronger at 1.74 vs. the dollar, and weaker at 1.82 6-12 months ahead.

ZAR also gains from risk on, with policy rates of 5.5.% offering attractive carry. Our forecasts reflect this near term upside, with ZAR expected at 7.55 in 0-3 months. Like TRY, however, our bias is for a weaker ZAR in 6-12 months. The real economy is very weak: although (well) below-trend GDP in Q4 was as expected, this followed a four quarter run of consistent downside surprises in real GDP — unusual in both the CEEMEA and broader EM contexts. A widening trade deficit and volatile inflows add to our medium term concerns.

The RUB basket, meanwhile, is expected to be around 34 in the next three months, stronger than what we expected last month. Supportive oil prices and tight RUB liquidity are the chief drivers of our more constructive outlook, with capital outflows as the main risk. We expect RUB to weaken to 36.5-37 over the medium to long term.

Finally, ILS is the only currency in the region that is expected to stay weak throughout the forecast horizon, reflecting the mixture of concerns that we have flagged for some months These include mounting geopolitical risks and related rising risk premia, a slipping current account position and a dovish central bank. Our forecasts have USD/ILS at 3.85 and 3.95 in the short and medium term, respectively.

Latam — Carry vs. Intervention

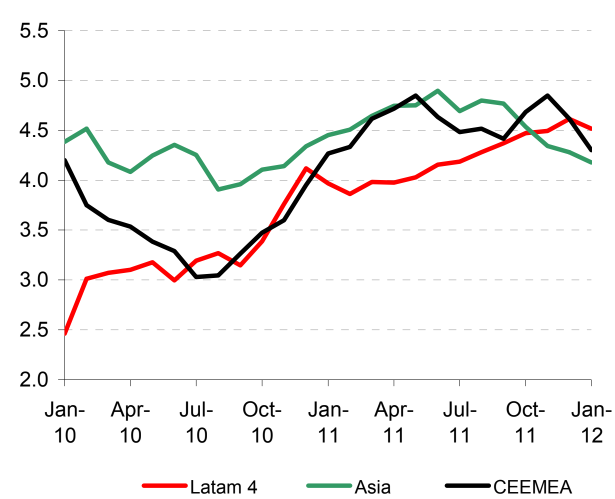
High-yielding Latam currencies have gained significantly from better global risk appetite, and our forecasts are for this to broadly continue. The combination of gushing global liquidity and high carry returns (even with some local policy easing in, e.g., Brazil) produces a strong tailwind for Latam FX in the short term. Furthermore, as Figure 80 shows, average inflation is still high in relative terms. Although Latam central banks are very unlikely to hike rates in the immediate future, the short end of money market curves, particularly in Mexico and Chile, have flattened too much in our view. Higher rate expectations would add to the carry allure of these currencies.

The flip side of this is central bank intervention. With the exception of Mexico, where the central bank tends to be less interventionist, policymakers in Brazil, Chile and Colombia have all already started/hinted strongly at intervention in recent weeks to stem appreciation. In the current global setting of ultra-easy global money, however, we think that intervention without capital controls may have limited success. Our 0-3 month forecasts have MXN outperforming the others relative to current spot.

The room for MXN to catch up with its cohort remains wide (Figure 81). MXN has only recently started to outperform the others, and is still the cheapest in real effective terms of the main Latam currencies covered here. Mexico also stands out as one of the few major EMs where activity and sentiment are both picking up, as might be expected given intimate ties to the strengthening US economy. We expect MXN to move higher over the coming months, both relative to forwards and current spot.

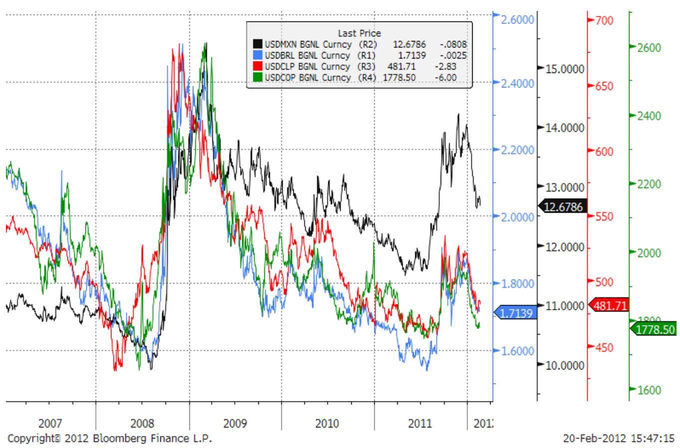
BRL does best in the wider global context 6-12 months out, relative to respective forwards. With 10.5% as the starting point for interest rates, carry remains extremely attractive even with 85bps of easing that is currently priced in the local interest rate futures curve for the next twelve months. The currency also continues to look fundamentally well-supported: by a shrinking current account deficit, sound fiscal fundamentals and fair expected growth. Our February forecasts have USD/BRL at around 1.70 over the next 12 months.

Figure 80. Annual CPI Inflation by Region, Simple Averages



Source: Citi and Bloomberg

Figure 81. Relative FX Performances, Spot



Source: Citi and Bloomberg

We stay broadly neutral on COP in the very near term, expecting COP at around 1787 in 0-3 months. Although we expect the latest intervention program, where the central bank has pledged to buy USD20mn each week, to impact the COP in due course, we are also cognizant that a similar exercise in Q4 09 took some time to have a meaningful impact on both COP and forward points. COP is also an "oil currency", and together with strong FDI inflows, is somewhat supported on fundamental grounds. Our forecasts show COP at 1800 in 12 months time.

As was the case in January, CLP is the odd one out in many aspects. It does reasonably well in the next three months relative to forwards, supported by the central bank's more cautious stance when it comes to lowering interest rates. The levels that triggered intervention in the past (460-470) are also still some way off.

Contributors

** *Citi Foreign Exchange: Forecasts is* a joint venture between Citi's foreign exchange, global macro and technical strategy groups and our developed and emerging markets economists. The analysts listed below have contributed to these forecasts in one form or another.

Figure 82. Citi Foreign Exchange Forecasts Contributors *For informational purposes only*

Global Macro Strategy Market Commentary			
Jeremy Hale†	(Head, Macro Strategy)	44-20-7986-9465	jeremy.hale@citi.com
Jeff Amato†	(Macro Strategy)	44-20-7986-1326	jeffery.david.amato@citi.com
Maya Bhandari†	(Macro Strategy)	44-20-7986-1013	maya.bhandari@citi.com
Maximilian Moldaschl†	(Macro Strategy)	44-20-7986-8753	maximilian.moldaschl@citi.com
Global Macro Economics Research			
Willem Buiter [1]	(Chief Economist)	44-20-7986-5944	willem.buiter@citi.com
Michael Saunders [1]	(Head, G10 Economics)	44-20-7986-3299	michael.saunders@citi.com
Kiichi Murashima [3]	(Head, Japan Economics)	81-3-6270-4981	kiichi.murashima@citi.com
Juergen Michels[1]	(European Economics)	44-20-7986-3294	juergen.michels@citi.com
Guillaume Menuet[1]	(European Economics)	44-20-7986-1314	guillaume.menuet@citi.com
Giada Giani[1]			
Tina Mortensen[1]	(European Economics)	44-20-7986-3284	tina.mortensen@citi.com
Dana Peterson[2]	(Canada Economics)	1-212-816-3549	dana.peterson@citi.com
Guillermo Mondino[2]	(Head, EM Research)	1-212-816-6499	guillermo.mondino@citi.com
David Lubin [1]	(Head, EM Economics)	44-20-7986-3302	david.p.lubin@citi.com
Johanna Chua [3]	(Head, EM Economics - Asia)	852-2501-2357	johanna.chua@citi.com
Joaquin Cottani [2]	(Head, EM Economics - Latam)	1-212-816-2735	joaquin.cottani@citi.com
Paul Brennan [4]	(Australian Economics)	61-8225-4899	paul.brennan@citi.com
Josh Williamson [4]	(Australian Economics)	61-8225-4904	josh.williamson@citi.com
FX and LM Strategy, FX Technicals & QIS			
Steven Englander†	(Head, G10 Strategy)	1-212-723-3211	steven.englander@citi.com
Osamu Takashima†	(G10 Strategy)	81-3-6270-9127	osamu.takashima@citi.com
Greg Anderson†	(G10 Strategy)	1-212-723-1240	gregory1.anderson@citi.com
Valentin Marinov†	(G10 Strategy)	44-20-7986-1861	valentin.marinov@citi.com
Wike Groenenberg†	(Head, EM Strategy - CEEMEA)	44-20-7986-3287	wike.groenenberg@citi.com
Patrick Perret-Green †	(Head, EM Strategy - Asia)	65-6328-2931	patrick.perretgreen@citi.com
Dirk Willer †	(Head, EM Strategy - Latam)	1-212-816-8758	dirk.willer@citi.com
Tom Fitzpatrick†	(Head, Technical Analysis)	1-212-723-1344	thomas.fitzpatrick@citi.com
Kristjan Kasikov †	(Quantitative Investor Solutions)	44-20-7986-3032	kristjan.kasikov@citi.com

1 Citigroup Global Markets Ltd.; 2 Citigroup Global Markets Inc.; 3 Citigroup Global Markets Asia; 4 Citigroup Pty Limited

NON-US RESEARCH ANALYST DISCLOSURES: The non-US research analysts listed above (i.e., the research analysts listed above other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Unless indicated in Appendix A-1 of this document or any of the referenced documents, the analysts listed above have not contributed to this document or any of the referenced documents.

SALES AND TRADING TEAMS: People designated as working in the sales or trading departments of Citi are not independent research analysts and have not contributed to this document or any of the referenced documents.

Figure 83. Citi Quarterly Interpolated Forecasts

Quarterly Interpolated Forecasts

	Currency	Spot	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
G10-US Dollar											
Euro	EURUSD	1.33	1.33	1.33	1.30	1.27	1.26	1.27	1.28	1.29	1.30
Japanese yen	USDJPY	79	80	81	80	79	78	78	78	78	78
British Pound	GBPUSD	1.59	1.59	1.59	1.58	1.57	1.57	1.59	1.61	1.63	1.65
Swiss Franc	USDCHF	0.91	0.91	0.91	0.94	0.96	0.97	0.97	0.97	0.96	0.96
Australian Dollar	AUDUSD	1.08	1.08	1.08	1.05	1.02	0.99	0.96	0.94	0.91	0.90
New Zealand Dollar	NZDUSD	0.84	0.85	0.84	0.81	0.77	0.74	0.71	0.68	0.65	0.63
Canadian Dollar	USDCAD	0.99	0.99	0.98	0.99	1.00	1.00	0.99	0.98	0.97	0.97
Dollar Index*	DXY	78.87	78.68	78.92	80.10	81.32	81.71	81.01	80.32	79.64	79.22
G10 Crosses											
Japanese yen	EURJPY	105	107	107	103	100	98	99	100	101	102
Swiss Franc	EURCHF	1.21	1.21	1.21	1.21	1.22	1.22	1.23	1.24	1.25	1.25
British Pound	EURGBP	0.84	0.84	0.83	0.82	0.81	0.80	0.80	0.79	0.79	0.79
Swedish Krona	EURSEK	8.82	8.81	8.80	8.80	8.80	8.79	8.78	8.77	8.76	8.75
Norwegian Krone	EURNOK	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
Norwegian Krone	NOKSEK	1.18	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17
Australian Dollar	AUDNZD	1.28	1.28	1.28	1.30	1.32	1.34	1.37	1.39	1.42	1.43
Australian Dollar	AUDJPY	85.6	86.8	86.8	83.3	79.9	77.2	75.2	73.3	71.3	70.3
EM Asia											
Chinese Renminbi	USDCNY	6.30	6.29	6.27	6.24	6.20	6.15	6.10	6.05	6.01	6.01
Hong Kong Dollar	USDHKD	7.75	7.75	7.76	7.76	7.76	7.76	7.75	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	9011	9100	9200	9150	9100	9050	9000	8950	8900	8900
Indian Rupee	USDINR	49.3	50.3	49.5	49.0	49.5	50.0	49.5	49.0	48.5	48.5
Korean Won	USDKRW	1123	1135	1120	1115	1100	1080	1070	1040	1020	1020
Malaysian Ringgit	USDMYR	3.02	3.10	3.05	3.01	3.00	2.98	2.96	2.92	2.89	2.89
Philippine Peso	USDPHP	42.6	43.0	42.7	42.4	42.0	42.0	41.9	41.8	41.5	41.5
Singapore Dollar	USDSGD	1.25	1.28	1.26	1.25	1.24	1.23	1.22	1.20	1.19	1.19
Thai Baht	USDTHB	30.8	31.0	30.8	30.5	30.3	30.3	30.2	30.0	30.0	30.0
Taiwan Dollar	USDTWD	29.5	29.6	29.9	29.5	29.2	28.8	28.5	28.2	28.2	28.2
EM Europe											
Czech Koruna	EURCZK	24.92	24.91	24.97	25.14	25.31	25.25	24.90	24.55	24.20	23.93
Hungarian Forint	EURHUF	288	286	284	280	277	276	279	281	284	285
Polish Zloty	EURPLN	4.17	4.14	4.11	4.15	4.18	4.17	4.09	4.02	3.94	3.90
Israeli Shekel	USDILS	3.73	3.78	3.86	3.90	3.93	3.94	3.93	3.92	3.91	3.88
Russian Ruble	USDRUB	29.8	29.6	30.0	31.3	32.6	33.1	32.9	32.6	32.3	32.1
Russian Ruble Basket	RUB	34.1	34.1	34.4	35.4	36.4	36.9	36.8	36.7	36.6	36.5
Turkish Lira	USDTRY	1.74	1.74	1.75	1.78	1.81	1.82	1.81	1.81	1.80	1.79
South African Rand	USDZAR	7.66	7.61	7.63	7.82	8.00	8.17	8.35	8.53	8.70	8.84
EM Latam											
Brazilian Real	USDBRL	1.71	1.71	1.71	1.71	1.70	1.69	1.68	1.67	1.66	1.66
Chilean Peso	USDCLP	482	481	483	490	496	499	496	494	491	492
Mexican Peso	USDMXN	12.7	12.6	12.6	12.6	12.7	12.7	12.6	12.4	12.3	12.2
Colombian Peso	USDCOP	1779	1782	1789	1793	1798	1805	1818	1830	1843	1854

* The DXY forecasts are implied from the forecasts of the constituent crosses.

Source: Citi Investment Research and Analysis

Figure 84. Citi Annual FX Forecasts

Annual Forecasts

	Currency	Spot	2012*	2013*	2014*	2015*	2016*
G10-US Dollar							
Euro	EURUSD	1.33	1.31	1.27	1.31	1.33	1.35
Japanese yen	USDJPY	79	80	78	79	82	84
British Pound	GBPUSD	1.59	1.58	1.60	1.66	1.69	1.72
Swiss Franc	USDCHF	0.91	0.93	0.97	0.97	0.98	1.00
Australian Dollar	AUDUSD	1.08	1.06	0.95	0.89	0.88	0.87
New Zealand Dollar	NZDUSD	0.84	0.82	0.69	0.63	0.62	0.62
Canadian Dollar	USDCAD	0.99	0.99	0.99	0.97	0.97	0.97
Dollar Index**	DXY	78.87	79.74	80.67	79.01	78.48	77.95
G10 Crosses							
Japanese yen	EURJPY	105	104	99	104	109	114
Swiss Franc	EURCHF	1.21	1.21	1.23	1.27	1.31	1.35
British Pound	EURGBP	0.84	0.82	0.80	0.79	0.79	0.79
Swedish Krona	EURSEK	8.82	8.80	8.78	8.75	8.75	8.75
Norwegian Krone	EURNOK	7.50	7.50	7.50	7.51	7.52	7.53
Norwegian Krone	NOKSEK	1.18	1.17	1.17	1.17	1.16	1.16
Australian Dollar	AUDNZD	1.28	1.29	1.38	1.42	1.41	1.40
Australian Dollar	AUDJPY	85.6	84.2	74.2	70.8	72.1	73.4
EM Asia							
Chinese Renminbi	USDCNY	6.30	6.25	6.08	5.95	5.86	5.81
Hong Kong Dollar	USDHKD	7.75	7.76	7.75	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	9011	9138	8975	8900	8800	8900
Indian Rupee	USDINR	49.3	49.6	49.3	48.5	47.0	46.0
Korean Won	USDKRW	1123	1118	1053	1010	990	980
Malaysian Ringgit	USDMYR	3.02	3.04	2.94	2.88	2.85	2.85
Philippine Peso	USDPHP	42.6	42.5	41.8	41.0	41.0	41.0
Singapore Dollar	USDSGD	1.25	1.26	1.21	1.17	1.16	1.15
Thai Baht	USDTHB	30.8	30.7	30.1	28.9	28.9	28.9
Taiwan Dollar	USDTWD	29.5	29.6	28.4	28.2	28.2	28.2
EM Europe							
Czech Koruna	EURCZK	24.92	25.08	24.72	23.69	23.06	22.43
Hungarian Forint	EURHUF	288	282	280	284	283	281
Polish Zloty	EURPLN	4.17	4.15	4.06	3.90	3.90	3.90
Israeli Shekel	USDILS	3.73	3.87	3.93	3.82	3.65	3.49
Russian Ruble	USDRUB	29.8	30.9	32.7	31.8	31.2	30.5
Russian Ruble Baske	RUB	34.1	35.1	36.8	36.6	36.7	36.9
Turkish Lira	USDTRY	1.74	1.77	1.81	1.77	1.71	1.64
South African Rand	USDZAR	7.66	7.76	8.44	8.98	9.37	9.75
EM Latam							
Brazilian Real	USDBRL	1.71	1.71	1.68	1.67	1.72	1.77
Chilean Peso	USDCLP	482	488	495	500	520	540
Mexican Peso	USDMXN	12.7	12.6	12.5	12.3	12.6	12.9
Colombian Peso	USDCOP	1779	1791	1824	1866	1899	1933

*Averages of end-quarter data shown in quarterly interpolation table.
** The DXY forecasts are implied from the forecasts of the constituent crosses.

Source: Citi Investment Research and Analysis

Market Commentary Disclaimer

This communication has been prepared by individual sales and/or trading personnel of Citigroup Global Markets Limited (**CGML**) or its subsidiaries or affiliates (collectively **Citi**). CGML is authorised and regulated in the United Kingdom by the Financial Services Authority (together with its successors, the **UK Regulator**) and has its registered office at Citigroup Centre, Canada Square, London E14 5LB. This communication is directed at persons (i) who have been or can be classified by Citi as eligible counterparties or professional clients in line with the rules of the UK Regulator, (ii) who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and (iii) other persons to whom it may otherwise lawfully be communicated. No other person should act on the contents or access the products or transactions discussed in this communication. In particular, this communication is not intended for retail clients and Citi will not make such products or transactions available to retail clients. The information contained herein may relate to matters that are (i) not regulated by the UK Regulator and/or (ii) not subject to the protections of the United Kingdom's Financial Services and Markets Act 2000 and/or the United Kingdom's Financial Services Compensation Scheme.

Citi may be the issuer of, or may trade as principal in, the products or transactions referred to in this communication or other related products or transactions. The sales and/or trading personnel involved in preparing or issuing this communication (the **Author**) may have discussed the information contained in this communication with others within Citi (together with the Author, the **Relevant Persons**) and the Relevant Persons may have already acted on the basis of this information (including by trading for Citi's proprietary accounts or communicating the information contained herein to other customers of Citi). Certain personnel or business areas of Citi may have access to or have acquired material non-public information that may have an impact (positive or negative) on the information contained herein, but that is not available to or known by the Author of this communication.

Citi is not acting as your agent, fiduciary or investment adviser and is not managing your account. The provision of information in this communication is not based on your individual circumstances and should not be relied upon as an assessment of suitability for you of a particular product or transaction. It does not constitute investment advice and Citi makes no recommendation as to the suitability of any of the products or transactions mentioned. Even if Citi possesses information as to your objectives in relation to any transaction, series of transactions or trading strategy, this will not be deemed sufficient for any assessment of suitability for you of any transaction, series of transactions or trading strategy. Save in those jurisdictions where it is not permissible to make such a statement, we hereby inform you that this communication should not be considered as a solicitation or offer to sell or purchase any securities, deal in any product or enter into any transaction. You should make any trading or investment decisions in reliance on your own analysis and judgment and/or that of your independent advisors and not in reliance on Citi and any decision whether or not to adopt any strategy or engage in any transaction will not be Citi's responsibility. Citi does not provide investment, accounting, tax, financial or legal advice; such matters as well as the suitability of a potential transaction or product or investment should be discussed with your independent advisors. Prior to dealing in any product or entering into any transaction, you and the senior management in your organisation should determine, without reliance on Citi, (i) the economic risks or merits, as well as the legal, tax and accounting characteristics and consequences of dealing with any product or entering into the transaction (ii) that you are able to assume these risks, (iii) that such product or transaction is appropriate for a person with your experience, investment goals, financial resources or any other relevant circumstance or consideration. Where you are acting as an adviser or agent, you should evaluate this communication in light of the circumstances applicable to your principal and the scope of your authority.

The information in this communication, including any trade or strategy ideas, is provided by individual sales and/or trading personnel of Citi and not by a research analyst and therefore the directives on the independence of research do not apply. Any view expressed in this communication may represent the current views and interpretations of the markets, products or events of such individual sales and/or trading personnel and may be different from other sales and/or trading personnel and may also differ from Citi's published research – the views in this communication may be more short term in nature and liable to change more quickly than the views of Citi research department which are generally more long term. On the occasions where information provided includes extracts or summary material derived from research reports published by Citi's research department, you are advised to obtain and review the original piece of research to see the research analyst's full analysis. Any prices used herein, unless otherwise specified, are indicative. Although all information has been obtained from, and is based upon sources believed to be reliable, it may be incomplete or condensed and its accuracy cannot be guaranteed. Citi makes no representation or warranty, expressed or implied, as to the accuracy of the information, the reasonableness of any assumptions used in calculating any illustrative performance information or the accuracy (mathematical or otherwise) or validity of such information. Any opinions attributed to Citi constitute Citi's judgment as of the date of the relevant material and are subject to change without notice. Provision of information may cease at any time without reason or notice being given. Commissions and other costs relating to any dealing in any products or entering into any transactions referred to in this communication may not have been taken into consideration.

Any scenario analysis or information generated from a model is for illustrative purposes only. Where the communication contains "forward-looking" information, such information may include, but is not limited to, projections, forecasts or estimates of cashflows, yields or return, scenario analyses and proposed or expected portfolio composition. Any forward-looking information is based upon certain assumptions about future events or conditions and is intended only to illustrate hypothetical results under those assumptions (not all of which are specified herein or can be ascertained at this time). It does not represent actual termination or unwind prices that may be available to you or the actual performance of any products and neither does it present all possible outcomes or describe all factors that may affect the value of any applicable investment, product or investment. Actual events or conditions are unlikely to be consistent with, and may differ significantly from, those assumed. Illustrative performance results may be based on mathematical models that calculate those results by using inputs that are based on assumptions about a variety of future conditions and events and not all relevant events or conditions may have been considered in developing such assumptions. Accordingly, actual results may vary and the variations may be substantial. The products or transactions identified in any of the illustrative calculations presented herein may therefore not perform as described and actual performance may differ, and may differ substantially, from those illustrated in this communication. When evaluating any forward looking information you should understand the assumptions used and, together with your independent advisors, consider whether they are appropriate for your purposes. You should also note that the models used in any analysis may be proprietary, making the results difficult or impossible for any third party to reproduce. This communication is not intended to predict any future events. Past performance is not indicative of future performance.

Citi shall have no liability to the user or to third parties, for the quality, accuracy, timeliness, continued availability or completeness of any data or calculations contained and/or referred to in this communication nor for any special, direct, indirect, incidental or consequential loss or damage which may be sustained because of the use of the information contained and/or referred to in this communication or otherwise arising in connection with the information contained and/or referred to in this communication, provided that this exclusion of liability shall not exclude or limit any liability under any law or regulation applicable to Citi that may not be excluded or restricted.

The transactions and any products described herein may be subject to fluctuations of their mark-to-market price or value and such fluctuations may, depending on the type of product or security and the financial environment, be substantial. Where a product or transaction provides for payments linked to or derived from prices or yields of, without limitation, one or more securities, other instruments, indices, rates, assets or foreign currencies, such provisions may result in negative fluctuations in the value of and amounts payable with respect to such product prior to or at redemption. You should consider the implications of such fluctuations with your independent advisers. The products or transactions referred to in this communication may be subject to the risk of loss of some or all of your investment, for instance (and the examples set out below are not exhaustive), as a result of fluctuations in price or value of the product or transaction or a lack of liquidity in the market or the risk that your counterparty or any guarantor fails to perform its obligations or, if this the product or transaction is linked to the credit of one or more entities, any change to the creditworthiness of the credit of any of those entities.

Citi (whether through the individual sales and/trading personnel involved in the preparation or issuance of this communication or otherwise) may from time to time have long or short principal positions and/or actively trade, for its own account and those of its customers, by making markets to its clients, in products identical to or economically related to the products or transactions referred to in this communication. Citi may also undertake hedging transactions related to the initiation or termination of a product or transaction, that may adversely affect the market price, rate, index or other market factor(s) underlying the product or transaction and consequently its value. Citi may have an investment banking or other commercial relationship with and access to information from the issuer(s) of securities, products, or other interests underlying a product or transaction. Citi may also have potential conflicts of interest due to the present or future relationships between Citi and any asset underlying the product or transaction, any collateral manager, any reference obligations or any reference entity.

Any decision to purchase any product or enter into any transaction referred to in this communication should be based upon the information contained in any associated offering document if one is available (including any risk factors or investment considerations mentioned therein) and/or the terms of any agreement. Any securities which are the subject of this communication have not been and will not be registered under the United States Securities Act of 1933 as amended (the **Securities Act**) or any United States securities law, and may not be offered or sold within the United States or to, or for the account or benefit of, any US person, except pursuant to an exemption from, or in a product or transaction, not subject to, the registration requirements of the Securities Act. This communication is not intended for distribution to, or to be used by, any person or entity in any jurisdiction or country which distribution or use would be contrary to law or regulation.

This communication contains data compilations, writings and information that are confidential and proprietary to Citi and protected under copyright and other intellectual property laws, and may not be reproduced, distributed or otherwise transmitted by you to any other person for any purpose unless Citi's prior written consent have been obtained.

IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the "promotion or marketing" of a transaction (if relevant) contemplated in these materials. Accordingly, you should seek advice based your particular circumstances from an independent tax advisor.

Although CGML is affiliated with Citibank, N.A. (together with Citibank N.A.'s subsidiaries and branches worldwide, **Citibank**), you should be aware that none of the products mentioned in this communication (unless expressly stated otherwise) are (i) insured by the Federal Deposit Insurance Corporation or any other governmental authority, or (ii) deposits or other obligations of, or guaranteed by, Citibank or any other insured depository institution.

© 2012 Citigroup Global Markets Limited. Citi, Citi and Arc Design are trademarks and service marks of Citigroup Inc. or its affiliates and are used and registered throughout the world.

Notes

Appendix A-1

Analyst Certification

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

IMPORTANT DISCLOSURES

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

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

NON-US RESEARCH ANALYST DISCLOSURES

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

Citigroup Global Markets Ltd	Willem Buiter; Michael Saunders; David Lubin; Guillaume Menuet; Jürgen Michels; Tina Mortensen; Mark Schofield; Peter Goves; Matt King; Elina Ribakova; David Cowan; Hans Lorenzen; Farouk Soussa; Hasan S Tevfik, CFA; Robert Buckland; Ebrahim Rahbari
Citigroup Global Markets Japan Inc.	Kiichi Murashima
Citigroup Global Markets Inc	Robert V DiClemente; Joaquin A Cottani; Peter D'Antonio; Steven C Wieting; Dana M Peterson; Jeffrey Berenbaum; Stav Gaon; Mary E Kane; Daniel P Ahn; Aakash Doshi
Citigroup Global Markets Asia	Johanna Chua; Adrienne Lui; Shuang Ding; Minggao Shen
Citibank Europe plc Czech Republic	Jaromir Sindel
Citibank (China) Co. Ltd.	Daxue Wang
Citicorp Pty Ltd	Paul Brennan; Josh Williamson
Citigroup Global Markets Korea Securities Ltd	Jaechul Chang
Citibank Taiwan Ltd.	Cheng-Mount Cheng
Citigroup Global Markets Singapore PTE LIMITED	Wei Zheng Kit
Citigroup Global Markets India Private Limited	Rohini Malkani
PT Citigroup Securities Indonesia	Helmi Arman
ZAO Citibank	Natalia Novikova
Bank Handlowy w Warszawie	Piotr Kalisz; Cezary Chrapek
Citibank Anonim Sirketi	Ilker Domac; Gultekin Isiklar
Acciones y Valores Banamex, S.A. de C.V	Sergio Luna
Citibank Europe Plc Hungary	Eszter Gargyan
Citibank - Colombia S.A.	Munir Jalil
Banco Citibank S.A.	Marcelo Kfoury

OTHER DISCLOSURES

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

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

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

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. LLC (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.
Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.
This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures.

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

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

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

With the exception of our product that is made available only to Qualified Institutional Buyers (QIBs), CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual CIRA analysts may also opt to circulate research posted on such platforms to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels. CIRA simultaneously distributes product that is limited to QIBs only through email distribution.

The level and types of services provided by CIRA analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

CIRA product may source data from dataCentral. dataCentral is a CIRA proprietary database, which includes Citi estimates, data from company reports and feeds from Reuters and Datastream.

© 2012 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure of this report (the "Product"), including, but not limited to, redistribution of the Product by electronic mail, posting of the Product on a website or page, and/or providing to a third party a link to the Product, is prohibited by law and will result in prosecution. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient to any third party. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST EU20222C