



FINANCIAL MARKET ANALYSIS

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Equity markets buoyed by Fed's plan to keep interest rates low for longer

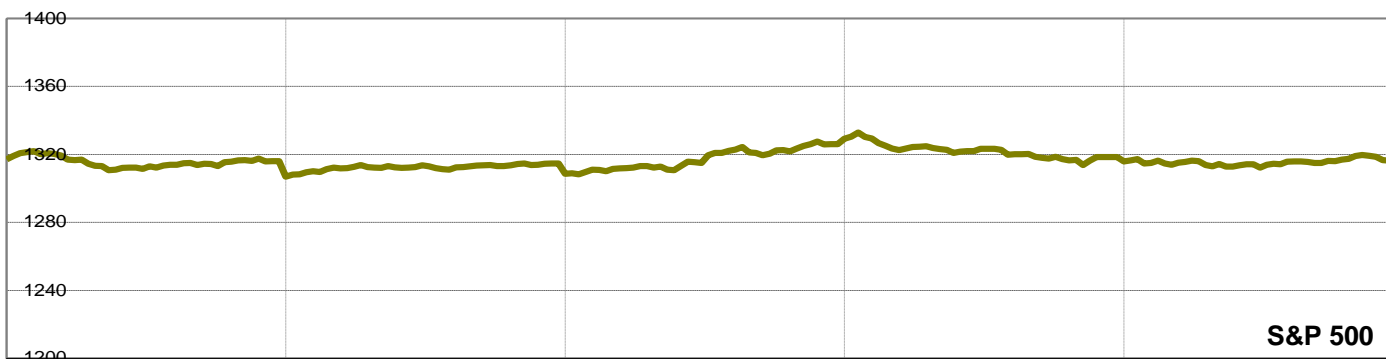
While slower-than-forecast US economic growth dampened gains towards the end of the week, the Federal Reserve's plans to keep interest rates low through at least late 2014 nevertheless helped the S&P 500 index achieve its fourth week of gains, the longest streak since October. The S&P 500 index rose 0.07% in the week to 1316.33. Asian stocks also saw a strong weekly session, with the MSCI Asia ex Japan adding 2.35% to 432.82. Europe stocks too saw a gain of 0.63% to 239.57, despite continuing talks between Greece and its creditors for a debt-swap deal. This week sees the release of a bevy of January PMI numbers, with manufacturing PMIs for Germany, France and the Eurozone composite on Wednesday. China's manufacturing PMI is due on Wednesday and non-manufacturing PMIs on Friday. Elsewhere in Asia, Japan reports its unemployment rate and industrial production on Tuesday, while Wednesday marks the release of Hong Kong's 4Q GDP, as well as Indonesia, Korea and Thailand's CPI numbers. In the US, we have the core PCE figures on Monday, followed by the non-farm payroll employment report on Friday.

	Jan 27 Close	Last week's return	YTD Return	YTD return (USD)
S&P 500:	1316.33	+0.07%	+4.67%	+4.67%
Stoxx Europe:	239.57	+0.63%	+6.11%	+7.86%
Nikkei 225:	8841.22	+0.85%	+4.56%	+4.93%
MSCI Asia ex Japan:	432.82	+2.35%	+10.19%	+10.19%

In this issue:

- *US economy: Fed taking a more accommodative stance*
- *Europe economy: Little room for near-term growth enhancing measures*
- *Asia Pacific ex Japan equities: Markets' tendency to move higher post CNY*

TAKING STOCK



Monday Jan 23	Tuesday Jan 24	Wednesday Jan 25	Thursday Jan 26	Friday Jan 27
<p>S&P: +0.05% STOXX: +0.70% Nikkei: -0.01% MSCI Asia ex Japan: +0.20%</p> <p>EU: Euro Area consumer confidence rose to -20.6 in Jan from -21.3 in Dec. Market expectations was for a drop to -21.4.</p> <p>EU: The Bundesbank's monthly report says German growth may have come to a "standstill". Says a slight decline in 4Q11 GDP can't be ruled out and 1Q12 growth may "move sideways".</p> <p>EU: The Bank of Spain estimates that Spain's 4Q11 GDP shrank by -0.3% QoQ while being up +0.3% YoY, and +0.7% for 2011 as a whole. It predicts a contraction of -1.5% this year, followed by +0.2% in 2013. Final figures will be released later by the stats agency.</p> <p>EU: Moody's says the Spanish government's efforts to support liquidity for the country's 17 cash-strapped regions is "credit positive".</p> <p>AP: Australia PPI rose 0.3% QoQ (2.9% YoY) in 4Q11 vs. market expectations for 0.4% QoQ (3.0% YoY) and 0.6% QoQ (2.7% YoY) in 3Q11.</p>	<p>S&P: -0.10% STOXX: -0.58% Nikkei: +0.22% MSCI Asia ex Japan: -0.12%</p> <p>Others: IMF forecast of world growth: sees it at 3.3% in 2012, down from 4% in Sep forecast; sees 3.9% in 2013; EU growth at -0.5% in 2012, +0.8% in 2013; US growth of 1.8% in 2012, and +2.2% in 2013; and Japan at +1.7% for 2012, down from +2.3% in Sep forecast. It sees EM growth at 5.4%, down from 6.1% forecasted in Sep; and China to grow +8.2% in 2012, down from +9% in Sep.</p> <p>EU: Flash sectoral PMIs show the Jan manufacturing PMI rising to 48.7 (Dec 46.9), and services PMI up at 50.5 (Dec 48.8). The composite PMI rises back to neutral (50.4) from 48.3 in Dec.</p> <p>EU: S&P says Greece likely to be downgraded to "selective default". John Chambers, chairman of the sovereign rating committee says a default doesn't necessarily mean the EU loses credibility or there would be contagion effects.</p> <p>EU: UK Dec public sector net borrowing (PSNB) ex effects of financial interventions was £13.7bn vs. market expectations of £14.9bn (Dec 2010 £15.9bn). PSNB including financial sector interventions was £10.8bn vs. £12.2bn expected by the market (Dec 2010 £13.9bn).</p> <p>JP: The Bank of Japan left both its policy rate and the size and composition of the asset purchase program unchanged.</p> <p>AP: The Reserve Bank of India cut the cash reserve ratio by 50 bps to 5.5% but left the repo and reverse repo rates unchanged at 8.5% and 7.5%, respectively.</p>	<p>S&P: +0.87% STOXX: -0.23% Nikkei: +1.12% MSCI Asia ex Japan: +0.64%</p> <p>US: The Federal Open Market Committee left the fed funds rate unchanged around a 0.25-0.00% range, noting that economic conditions are likely to warrant exceptionally low levels for the fed funds rate at least through late-2014.</p> <p>US: Pending home sales fell -3.5% MoM (+4.4% YoY) in Dec, vs. +7.3% MoM (+6.9% YoY) in Nov. The house price index rose +1% MoM in Nov vs. -0.2% in Oct. Home prices fell -1.8% in the last 12 months through Nov.</p> <p>EU: German Jan Ifo survey showed a rise in the headline business climate indicator to 108.3 from 107.3 in Dec, vs. market expectation of 107.5.</p> <p>EU: Preliminary UK output-based GDP for 4Q11 showed a worse than expected -0.2% QoQ rate, following a 0.6% QoQ rise in 3Q11, weaker than the market expectation of -0.1% QoQ and far worse than the Bank of England's 0.3% QoQ expectation in its Nov Inflation Report.</p> <p>JP: Real exports rose 0.8% MoM in Dec for the first gain in three months, after decreasing -2.5% MoM in Nov and -3.8% MoM in Oct.</p> <p>AP: Australia's headline CPI was flat in 4Q11. After seasonal adjustment, the CPI rise also was low (0.2%).</p> <p>AP: Singapore Dec core inflation crept up to a near 3-year high of 2.6% YoY despite "more moderate" headline inflation of 5.5% YoY.</p> <p>AP: Bank of Thailand cut the overnight rate by 25 bps to 3.00%.</p>	<p>S&P: -0.57% STOXX: +1.69% Nikkei: -0.39% MSCI Asia ex Japan: +1.18%</p> <p>US: Initial Jobless Claims rose 21,000 to 377,000 in the week ending Jan 21, after a 46,000 drop in the prior week.</p> <p>US: Durable Goods Orders rose a larger-than-expected 3.0% in Dec after an upwardly revised 4.3% gain in Nov.</p> <p>US: New Home Sales for Dec showed a slip down in single family sales to 307,000 from 314,000 in Nov.</p> <p>US: Leading indicators index increased in Dec by 0.4%. The index has now almost returned to the level reached in Jul before it slipped in the fall.</p> <p>EU: German GfK consumer confidence projected for Feb rose to an above-market consensus expectation of 5.9, from an upwardly revised 5.7 in Jan (prev 5.6).</p> <p>EU: UK CBI retail survey of -22 for Jan is far worse than market expectation of -6. However, the decline should be interpreted as a movement back to its downward trend.</p> <p>AP: The Reserve Bank of New Zealand left the policy rate unchanged at 2.50%.</p> <p>AP: Hong Kong exports rebounded more than expected in Dec (+7.4% YoY) after disappointing Nov readings. Imports growth also outpaced expectations in Dec at 8.1% YoY. Trade deficit of HK\$116.2bn in Q4 is a significant drag for 4Q GDP.</p> <p>AP: Singapore Dec IP surged 12.6% YoY (Nov, revised: -8.0%, unrevised), significantly stronger than expected.</p>	<p>S&P: -0.16% STOXX: -0.93% Nikkei: -0.09% MSCI Asia ex Japan: +0.44%</p> <p>US: Real GDP rose 2.8% in 4Q11, in line with Citi estimates, but slightly short of consensus (+3.0%). Real final sales rose just 0.8% and domestic final sales 0.9% (Citi: +1.1%).</p> <p>US: Reuters/Michigan Sentiment second pass for Jan was revised up from 75.0 from 74.0 in the first look. The bulk of the upward revision was in current economic conditions.</p> <p>EU: Dec Euro Area M3 money supply growth of 1.6% YoY is a marked deceleration from 2.0% YoY in Nov, and falls short of market consensus expectation of 2.2% YoY.</p> <p>EU: Germany reported a -0.3% fall in CPI inflation from Jan that takes its YoY rate back up to 1.9% YoY (Dec; 1.7% YoY).</p> <p>JP: Nationwide consumer prices index (excluding fresh food) declined -0.1% YoY in Dec (Nov: -0.2% YoY). The result matched market median projection.</p> <p>JP: Dec retail sales rose 2.5% YoY after a -2.2% YoY decline in Nov, overshooting the market median projection of a 2.1% YoY gain. Retail sales in real terms dropped -1.3% QoQ in 4Q11.</p>

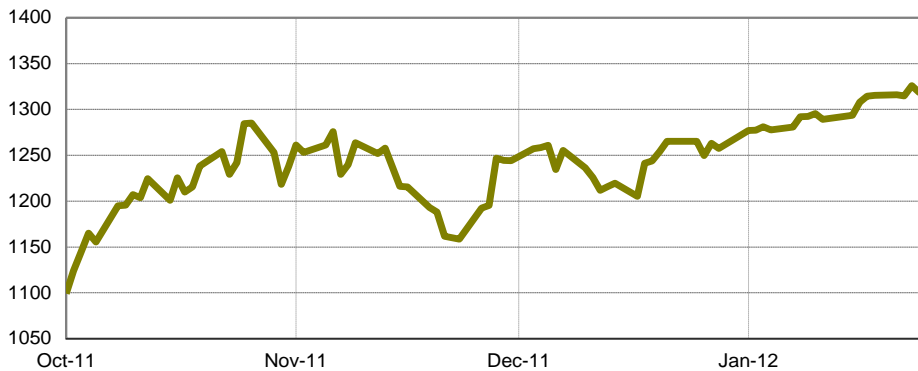
Over the Weekend
Jan 28 and Jan 29

Others: --

Please note: Citi analysts' comments are in italics. Source: Bloomberg, Reuters, Associated Press, CIRA

US/NORTH AMERICA

S&P 500 (1/10/2011 to 27/1/2012)



Source: Bloomberg

Economic Outlook

Fed taking a more accommodative stance

The Federal Reserve (Fed) expanded its communications strategy at last week's FOMC meeting, enhancing transparency and accountability. Importantly, the changes were made to provide a more accommodative monetary policy that eased financial conditions. Specifically, the Fed extended the likely period of near zero policy rates out to late 2014.

The Fed made clear that it is opting to use enhanced communication to ease policy for now. While Chairman Bernanke was careful not to rule out asset purchases should conditions warrant, there was nothing in the communications that pointed to a new round of Quantitative Easing (QE).

Finally, the Fed's economic projections weren't changed much, but officials had to lower unemployment estimates due to the half point drop in the past three months. While the labour market has shown signs of significant improvement recently, Citi analysts think the latest figures overstate the progress.

The Week Ahead

30/1

- The surprisingly strong December employment report – with a sharp rise in private payrolls, a lengthening of the workweek and a standard pickup in hourly earnings likely contributed to a gain in December **personal income** (0.4%).

31/1

- Citi analysts look for a modest rebound in 4Q11 **employment costs** (0.5%).
- Consumer confidence** likely continued its rapid improvement in January (67.0).

1/2

- Auto sales** likely edged higher to 13.6M in January.

2/2

- Initial jobless claims** for the week ending January 28 likely fell by 17K to 360K.

3/2

- Citi analysts look for a sharp pullback in January **payroll growth** (100K), but do not see this as a fundamental slowing in the labour market.
- Factory orders** likely rose again in December on the back of strong durable goods orders (1.3%).

Equities

P/E multiple expansion expected in the next 12 months

	Last week's close	Last week's return	YTD return
S&P 500	1316.33	+0.07%	+4.67%
DJIA	12660.46	-0.47%	+3.63%
Nasdaq	2816.55	+1.07%	+8.11%

While equity valuations have slid since the tech bubble of the late 1990s and early 2000s, P/E trends seem surprisingly depressed given the incredibly low interest rate environment. In this context, Citi analysts believe there is ample reason to believe in multiple expansion in the next 12 months.

Margin weakness typically drives valuation higher. Indeed, statistical evidence shows that P/E's usually expand when corporate margins begin to fall, as deemed likely in the years ahead given lofty margins presently. Citi does not anticipate a US recession and thus any margin drop should be modest rather than precipitous.

Finally, there is typically an inverse relationship between equity risk premiums and P/E valuation and there have been many reasons to be concerned over the past decade, ranging from wars, sovereign credit woes, a financial crisis to peak margin worries and home price anxiety and high unemployment rates. However, there does seem to be an easing in some of these issues, which suggest higher stock prices.

Source: CIRA

Bonds

Preference for high-grade corporates and emerging market debt

	Jan 27 2011	Jan 20 2011	Jan 13 2011
2-yr Try:	0.211%	0.240%	0.221%
5-yr Try:	0.749%	0.886%	0.790%
10-yr Try:	1.891%	2.025%	1.864%

Treasuries: Slow growth and fading inflation pressures could keep rates low. In Citi's view, curves are likely to bull-flatten further but gains appear poised to be less robust.

High-grade corporates: Citi analysts favour non-financial issuers in the US, where fundamentals are solid, balance sheets are strong and liquidity is robust.

High-yield corporates: Despite relatively decent valuations, high yield bonds are likely to remain volatile as long as risk appetite remains depressed.

EMD: Spreads are still attractive as improving fundamentals and credit quality of EM debt provides investors with a way to diversify their sovereign holdings from developed markets.

Currencies

USD: Broad based USD strength to resume

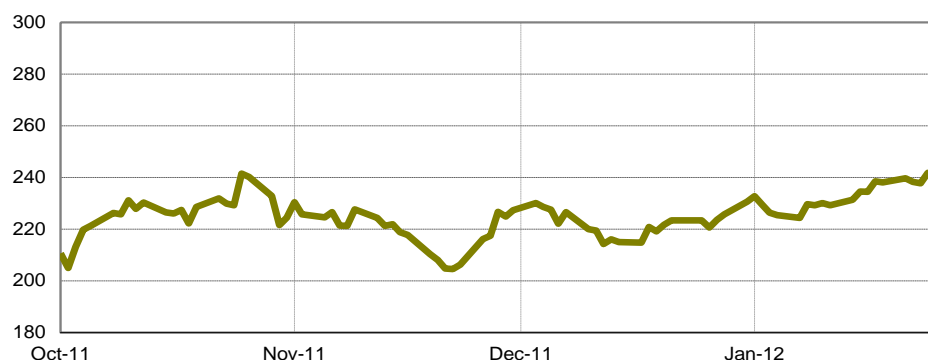
	March 2012 forecasts	
	EURUSD	USDCAD
	1.25	1.03

The European Central Bank's actions in cutting policy rates and providing liquidity via 3-Year long-term refinancing operations (LTROs) have probably helped to boost risk appetite and weaken the EUR. Citi analysts think the latter effect is likely to last longer than the former. If so, and with Chinese economic slowdown an underestimated risk for some LATAM currencies and the AUD, they expect broad based USD strength to resume unless the Federal Reserve's new operating transparency is perceived to be hugely dovish.

They believe EUR/USD could likely decline into a 1.20-1.25 range and see potential for further USD gains versus the commodity backed G10 currencies as commodity prices ease, with NZD likely the worst performing. In their view, only JPY appears likely to be strong enough to resist the USD advance.

EUROPE

STOXX (1/10/2011 to 27/1/2012)



Source: Bloomberg

Economic Outlook

Little room for near-term growth enhancing measures

At today's (30 January) summit, the EU Heads of State and Governments (HoSG) want to "take active measures to enhance growth and competitiveness and above all create jobs". However, given the ongoing uncertainty on the Greek PSI and the second Greek bailout programme, immediate crisis management is likely to play again a key role at the Summit. Furthermore, the approval of the ESM and the discussions on the new fiscal compact are likely to dominate the meeting.

Given the fiscal constraints, particularly in the periphery countries, Citi analysts see little room to put in place measures that will help to stimulate growth quickly. While there are proposals to make better use of the EU funds for sustainable growth, the available €55.3bn in the EU-27 budget appear too small to make a difference. While structural reforms in labour and product markets are likely to improve the region's low growth potential over time, it is unlikely that the measures will be able to prevent a substantial contraction in euro area GDP in 2012.

The Week Ahead

30/1

- **Spain:** Falling government expenditures, household consumption and investment may contribute to a contraction in **4Q11 GDP** (-0.2% QoQ, 0.3% YoY).

31/1

- **Italy:** Citi analysts expect **unemployment** rate to end the year at 8.6% - the same rate as that registered in November.

1/2

- **Sweden:** Given the surprise rise in German and euro-area manufacturing PMI in January, Citi analysts expect **PMI** to creep higher, but to stay marginally below 50.

2/2

- **Norway:** Registered **unemployment** is likely to remain stable at 2.4% in January.

3/2

- **Euro Area:** After a substantial fall in November, Citi analysts expect **retail sales** to edge up in December, mainly reflecting the projected rebound in German retail sales.

Equities

Favouring companies with international exposure

	Last week's close	Last week's return	YTD Return
STOXX	239.57	+0.63%	+6.11%
FTSE 100	5733.45	+0.09%	+2.89%
DAX	6511.98	+1.68%	+10.40%

Given continued sovereign debt concerns in Europe and widening macro dispersion between Europe vs. US and Emerging Markets (EM), Citi analysts believe that stocks with international exposure should help deliver better earnings growth and a lower risk profile than European-focussed stocks.

Indeed, gradual improvements in the labour and housing market, combined with reviving auto production and signs of increased competitiveness signal that the US is doing better. A postponement of public sector deleveraging and reasonably well capitalised banks have also helped the macro backdrop. By itself a US GDP growth forecast of 2% is fairly subdued. But the US and Eurozone GDP growth differential is reaching levels (of around 3.5%-4%) not seen in recent decades.

The gap is even wider when comparing Eurozone with EM GDP growth expectations. An EM and Eurozone GDP growth differential of 6.5%-7% for 2012 is the widest level seen since the onset of the financial crisis. In a world that has not enough growth and too much debt, EM appears well placed with more growth than DM and less debt too.

Source: CIRA

Bonds

Favour long-dated UK gilts

	Jan 27 2011	Jan 20 2011	Jan 13 2011
2-yr Try:	0.191%	0.207%	0.152%
5-yr Try:	0.813%	0.891%	0.703%
10-yr Try:	1.858%	1.929%	1.765%

The UK is not immune to the periphery problems in continental Europe. However, gilts are benefiting from the Bank of England's decision on October 6 to boost its bond purchase program from £200 billion to £275 billion. Gilts also benefit from the government's renewed commitment to its austerity plan on November 30, which solidifies the UK's AAA rating. Long-dated UK gilts, which generated the most impressive bond returns of 2011, remain Citi's preference.

Currencies

EUR: Further downside anticipated medium-term

GBP: Up vs. EUR, down vs. USD

March 2012 forecasts		
GBPUSD	USDCHF	EURGBP
1.52	0.97	0.82

Uncertainties remain, including the Greek March package, related private sector involvement (PSI) and the risks of failed bond auctions elsewhere as supply picks up and banks show signs of hoarding long-term refinancing operation (LTRO) cash than reinvesting. But on the US side of the equation, we may need to account for the impact of more Fed transparency on the policy front. Citi analysts forecast EURUSD to decline into a 1.20-1.25 range.

GBP is being pulled in different directions by valuation (cheap) and economic and monetary conditions (not helpful). The outlook for the UK economy continues to look poor and could lead a further expansion of the Bank of England's quantitative easing (QE2) program. This mix of easy money and tight fiscal policy is likely to weaken GBP against USD. Policymakers though are likely to accept further downside in EUR/GBP (GBP strength) against the backdrop of deepening euro stresses.

JAPAN

Nikkei 225 (1/10/2011 to 27/1/2012)



Source: Bloomberg

Economic Outlook

Will labour shortage limit reconstruction speed?

Citi analysts expect reconstruction demand for infrastructure damaged by the March 11 earthquake and tsunami to push up economic activity markedly in 2012. Large increases in public works spending are expected in fiscal 2012 as a result of a series of supplementary budgets.

However, labour shortage may be an obstacle. There is much evidence that a labour shortage is affecting reconstruction works in areas devastated by the disaster. In particular, job offers for construction-related workers increased sharply in the wake of the earthquake, while the number of job applicants remained stable. There have also been media reports of examples in which tenders for public works projects are not subscribed to because of labour shortages. As such, there is significant risk that the process of reconstruction from the earthquake may take longer than generally expected. While overall reconstruction demand should remain the same even in that case, the impact on near-term economic activity may be smaller than expected.

The Week Ahead

31/1

- **Nominal household spending** probably decreased 0.3% YoY and increased 1.0% MoM in December (-3.8% YoY and -1.0% MoM in November). **Real spending** likely declined 0.1% YoY and rose 0.1% MoM (-3.2% YoY and -1.3% MoM).
- Citi analysts expect December **unemployment rate** to stay at 4.5%, unchanged from November (monthly labor force survey resumed compilation of data from most severely-hit Iwate, Miyagi and Fukushima prefectures in September).
- **Industrial production** may increase 3.2% MoM in December after a -2.7% MoM drop in November.
- **Housing starts** in December are expected to stand at 848k (1.5% YoY) on a seasonally adjusted annualized basis (November: 845k, -0.3% YoY). On a MoM basis, a 0.3% increase is expected. Following a sharp decline in September, housing starts have probably continued to recover.

Equities

Interest rate expectations and the impact on Japanese equities

	Last week's Close	Last week's return	YTD return
Nikkei	8841.22	+0.85%	+4.56%
Topix	761.13	+0.75%	+4.46%

On January 25, the Federal Reserve Board (FRB) announced the policy rate outlooks of 17 members of the FOMC. 11 members expect the first interest rate hike to come in 2014 or later – three members expect the first hike in 2012, three in 2013, five in 2014, four in 2015, and two in 2016. The FOMC statement says that the low interest-rate policy in the US is likely to continue through late 2014.

Prior to the FRB announcement, the market forecast (as shown by interest rate futures) was for the first rate hike to come in mid-2014. Following the announcement, this has now shifted out to around September 2014.

It may be that the FRB may be set on a looser monetary policy than before, based on the experience of the liquidity trap after the Lehman Brothers bankruptcy. Citi analysts think this will promote a recovery in the US economy and be positive for Japanese equities as well.

Source: CIRA

Bonds

Modest rise in long-term rates expected

	Jan 27 2011	Jan 20 2011	Jan 13 2011
2-yr Try:	0.131%	0.131%	0.133%
5-yr Try:	0.334%	0.346%	0.337%
10-yr Try:	0.970%	0.987%	0.947%

Fiscal austerity in the industrialized nations and slowing growth continues to disproportionately put the onus on central banks to jumpstart economic recoveries. Citi analysts expect quantitative easing measures from the Bank of Japan to support market conditions via purchases of government debt. Indeed, Japan's central bank announced on October 27 that it had boosted its bond purchase program by ¥5 trillion. Citi analysts believe that this could precipitate a modest rise in long-term rates.

Currencies

JPY: USD/JPY flat to slightly lower

	March 2012 forecast	
	USDJPY	EURJPY
	77	96
		AUDJPY
		78.0

Japanese fundamentals are mixed. The current account surplus of around 2.5-3.0% of GDP remains positive and unemployment is low by international standards. On the other hand, economic growth remains fragile and supported by a large, and probably unsustainable, fiscal deficit. The Noda Administration wants to raise the sales tax and this is likely to require as accommodative a monetary stance (rates, QE and FX) as possible.

That said, Japanese policy is rarely proactive, and Citi analysts doubt that further Bank of Japan actions are likely to cause a major impact on JPY. Overall, they forecast broad stability, or a slight decline, in USD/JPY in the face of USD strength elsewhere.

ASIA PACIFIC EX JAPAN

MSCI Asia ex Japan (1/10/2011 to 27/1/2012)



Source: Bloomberg

Economic Outlook

India's macro signposts to watch: state elections and the FY13 budget

2011 is widely acknowledged as a missed opportunity with the investment community largely resigned to growth trending in the 6-7% range, rather than the 8-9% range. While investment trends remain lackluster, Citi analysts hope recent government resolve to fast-track projects is not another false start. On consumption, while rural spending may be plateauing, continued focus on 'inclusive growth' and a lower rate environment could be offsets.

Against a despondent macro backdrop, two upcoming events are likely to be key in shaping the direction of the economy and markets: (1) State elections in February will play an important role in shaping policy decisions; (2) The FY13 Budget, will be closely watched for steps toward fiscal consolidation (revenue raising and subsidy containment) and structural reforms (particularly in the infrastructure/agriculture space).

Meanwhile, the inflation and rate outlook has turned for the positive. The RBI finally commenced its easing cycle, cutting the CRR by 50 bps on 24 January. While underlying inflationary pressures remain, the WPI could ease to 7% by March 2012 on base effects. Given that the growth-inflation balance has shifted to growth, Citi analysts see a minimum 100 bps cut in the repo rate in 2012.

Equities

Markets' tendency to move higher post CNY

	Last week's close	Last week's return	YTD Return
MSCI Asia ex Japan	432.82	+2.35%	+10.19%

History shows that following Chinese New Year, markets have experienced upside momentum. A combination of cheap markets and prior poor 12-month performance helps. Indeed, equities remain attractively valued with an implied EPS growth rate to perpetuity of 1.7%.

As risk indicators improve, equities as a risk asset get pushed higher. Over the last few weeks, the Citi risk indicator has come off, which has pushed investors back towards risk taking. At the same time, excess liquidity continues to show positive growth momentum and interbank stress is declining.

North Asian markets, which were sold off last year due to growth and financial fears, should be bought back. Asia appears to be back on the easing cycle, which should benefit financials and growth sensitivities. Citi analysts are overweight Hong Kong, Korea and Taiwan, and neutral China. Sectors preferred include banks, energy, industrials technology and real estate.

Source: CIRA

Bonds

Asia local bond curves likely to steepen in India, Indonesia, Thailand and Malaysia

While inflation pressures dissipate, and central banks will likely either be on hold or with a bias to ease, rate cuts in the region are likely to be limited and, if anything, temporary, given the risky nature of exacerbating inflation expectations and financial stability risks amid already low real interest rates (domestically and globally) and DM central bank balance sheets biased towards expansion. Thus, the likely onus of policy support will lean on the fiscal side. Both of these factors should eventually be supportive of steeper curves, especially in Thailand, where THB bonds look overvalued and fiscal pressures will emerge, and in India, where fiscal slippage of about 1% of GDP should keep long-end yields elevated, while liquidity easing measures including RBI's OMO purchases and eventual rate cuts could anchor the short end.

Citi analysts think Indonesian long-end bond yields also look artificially too low, not taking into account the additional risk premium from BI's aggressive policy easing gamble, BI bond purchases that will prove unsustainable and still heavy offshore positioning on long duration bonds. The latter also applies to Malaysia.

The Week Ahead

30/1

- **Philippines:** 4Q11 GDP growth likely rose to 4.0%.
- **Taiwan:** Unemployment rate is likely ticked up slightly to 4.34% (s.a.) in December.

31/1

- **Korea:** Industrial production growth in December is expected to fall further to 2.7% YoY (November 5.6%).
- **Singapore:** Unemployment rate probably rose to 2.3% sa in 4Q11 (3Q: 2.0%).
- **Taiwan:** GDP growth likely fell 0.2% QoQ sa in 4Q11, with YoY growth slowing to 2.6% (3Q11: 3.4%). **M2 growth** likely continued to slow in December to 4.9% YoY.

1/2

- **China:** January PMI likely edged down to 49.6 in January from 50.3 in December.
- **Hong Kong:** GDP probably grew 3.1% YoY in 4Q11 (0.6% QoQ), with a full year 5% YoY growth.
- **Indonesia:** Inflation rate in January is seen at 0.64% MoM, which should bring the YoY rate down to 3.52%. **Trade surplus** likely widened slightly to \$1.7bn (previously \$1.5bn)

2/2

- **Hong Kong:** Retail sales is likely to have grown at 18.4% YoY (by volume) in December.

Currencies

AUD: Bias still lower

EM Asia: Mixed performance

	March 2012 forecasts		
	AUDUSD	NZDUSD	USDSGD
	1.01	0.78	1.30

Citi analysts believe AUD remains overvalued in the context of commodity prices/ terms of trade, carry and rate differentials, risk appetite globally etc. Economic data surprises in Australia have also been on a downtrend while US data has surprised to the upside. But more importantly, Citi analysts are concerned that the Chinese property bubble poses a huge threat to AUD, and forecast AUD downside over the medium term.

The outlook for EM Asia currencies appear mixed over the near term, with Chinese developments staying key. Citi analysts expect more near-term downside for EM Asia currencies that have intimate China ties and where domestic data have also softened. With mounting Chinese macro risks in a generally firm USD environment, Citi analysts have pared back their expectations for meaningful USDCNY depreciation over the next 12 months.

WORLD MARKETS AT A GLANCE

	Previous Week's Close	52-Week High	52-Week Low	Weekly Return	YTD Return	YTD Return (USD)
UNITED STATES						
Dow Jones Industrial Average	12660.46	12876.00	10404.49	-0.47%	+3.63%	+3.63%
S&P 500	1316.33	1370.58	1074.77	+0.07%	+4.67%	+4.67%
Nasdaq	2816.55	2887.75	2298.89	+1.07%	+8.11%	+8.11%
EUROPE						
DJ Euro STOXX	239.57	297.73	194.63	+0.63%	+6.11%	+7.86%
FTSE 100	5733.45	6105.77	4791.01	+0.09%	+2.89%	+4.24%
DAX	6511.98	7600.41	4965.80	+1.68%	+10.40%	+12.23%
JAPAN						
Nikkei 225	8841.22	10891.60	8135.79	+0.85%	+4.56%	+4.93%
TOPIX	761.13	976.28	703.88	+0.75%	+4.46%	+4.83%
ASIA						
MSCI Asia ex Japan	432.82	512.12	353.80	+2.35%	+10.19%	+10.19%
Hong Kong Hang Seng	20501.67	24468.64	16170.35	+1.95%	+11.21%	+11.38%
Shanghai Composite Index	2319.12	3067.46	2132.63	+0.00%	+5.44%	+4.86%
Taiwan Weighted Index	7233.69	9207.33	6609.11	+0.00%	+2.29%	+3.36%
Korea KOSPI	1964.83	2231.47	1644.11	+0.77%	+7.62%	+10.97%
Mumbai Sensex	17233.98	19811.14	15135.86	+2.96%	+11.51%	+19.89%
Singapore Straits Times Index	2916.26	3232.99	2521.95	+2.35%	+10.20%	+13.84%
Kuala Lumpur Composite	1520.90	1597.08	1310.53	-0.12%	-0.64%	+3.54%
Thai Stock Exchange	1076.29	1148.28	843.69	+1.67%	+4.97%	+6.76%
Jakarta Composite Index	3986.41	4195.72	3217.95	-0.00%	+4.30%	+6.28%
Philippines Stock Exchange Index	4679.89	4756.78	3705.18	-1.43%	+7.04%	+9.77%
Australia All Ordinaries	4348.48	5069.50	3829.40	+1.06%	+5.78%	+9.71%
EMEA						
Russia MICEX Index	1508.04	1865.25	1242.75	+1.13%	+7.55%	+14.72%
South Africa JSE All Shares Index	33895.02	34079.54	28305.41	+0.57%	+5.97%	+10.10%
Turkey ISE National 100 Index	57356.72	70335.62	48600.16	+4.50%	+11.88%	+18.59%
LATIN AMERICA						
Mexico Bolsa Index	37184.71	38128.40	31561.51	-0.53%	+0.29%	+7.77%
Brazil Bovespa Index	62904.20	70107.71	47793.49	+0.95%	+10.84%	+18.57%
COMMODITIES						
Gold	1739.07	1921.15	1323.25	+4.35%	+11.22%	+11.22%
Oil	99.56	114.83	74.95	+1.12%	+0.74%	+0.74%
FIXED INCOME						
Citigroup World Government Bond Index	611.85	611.85	568.55	+0.54%	+0.43%	+0.43%

Source: Bloomberg (As at January 27, 2012)

CURRENCY FORECASTS

Currency		30-Jan-12	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Jan-14
G10-US Dollar											
Euro	EURUSD	1.32	1.25	1.24	1.22	1.20	1.22	1.25	1.27	1.3	1.3
Japanese yen	USDJPY	77	77	77	76	76	76	77	77	78	79
British Pound	GBPUSD	1.57	1.52	1.52	1.51	1.50	1.53	1.57	1.60	1.64	1.65
Swiss Franc	USDCHF	0.92	0.97	0.98	1.00	1.01	1.01	0.99	0.98	0.96	0.96
Australian Dollar	AUDUSD	1.06	1.01	0.99	0.96	0.93	0.92	0.92	0.91	0.90	0.90
New Zealand	NZDUSD	0.82	0.78	0.76	0.73	0.70	0.69	0.67	0.65	0.63	0.63
Canadian Dollar	USDCAD	1.00	1.03	1.04	1.05	1.07	1.04	1.01	0.98	0.95	0.95
Dollar Index	DXY	79.04	82.23	83.07	83.93	84.82	83.66	82.18	80.73	79.32	79.02
G10 Crosses											
Japanese yen	EURJPY	101	96	95	93	91	93	96	98	101	102
Swiss Franc	EURCHF	1.21	1.21	1.21	1.22	1.22	1.23	1.23	1.24	1.25	1.26
British Pound	EURGBP	0.84	0.82	0.81	0.81	0.80	0.80	0.80	0.79	0.79	0.79
Swedish Krona	EURSEK	8.92	8.90	8.93	8.96	9.00	8.95	8.88	8.82	8.76	8.75
Norwegian Krone	EURNOK	7.67	7.79	7.80	7.80	7.80	7.76	7.71	7.66	7.61	7.60
Norwegian Krone	NOKSEK	1.16	1.14	1.14	1.15	1.15	1.15	1.15	1.15	1.15	1.15
Australian Dollar	AUDNZD	1.29	1.30	1.30	1.32	1.33	1.35	1.37	1.40	1.43	1.43
Australian Dollar	AUDJPY	81.1	78.0	75.8	73.4	71.0	70.6	70.5	70.3	70.2	70.5
EM Asia											
Chinese Renminbi	USDCNY	6.32	6.30	6.27	6.24	6.20	6.15	6.10	6.05	6.01	6.01
Hong Kong Dollar	USDHKD	7.76	7.78	7.77	7.77	7.76	7.76	7.75	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	9004	9000	9300	9200	9100	9050	9000	8950	8900	8900
Indian Rupee	USDINR	49.5	52.0	52.0	51.5	51.0	50.0	49.5	49.0	49.0	49.0
Korean Won	USDKRW	1127	1150	1145	1120	1100	1080	1070	1040	1020	1020
Malaysian Ringgit	USDMYR	3.05	3.18	3.12	3.11	3.08	3.04	3.01	2.96	2.94	2.94
Philippine Peso	USDPHP	43.0	44.5	43.8	43.3	43.0	42.9	42.7	42.5	42.3	42.3
Singapore Dollar	USDSGD	1.26	1.30	1.28	1.27	1.25	1.23	1.22	1.20	1.19	1.19
Thai Baht	USDTHB	31.1	31.8	31.6	31.4	31.2	31.0	30.8	30.5	30.3	30.3
Taiwan Dollar	USDTWD	29.7	30.2	30.5	30.2	29.8	29.8	29.5	29.5	29.2	29.2
EM Europe											
Czech Koruna	EURCZK	25.15	26.11	25.86	25.46	25.06	24.79	24.54	24.29	24.04	23.87
Hungarian Forint	EURHUF	294	310	306	301	296	293	290	288	285	285
Polish Zloty	EURPLN	4.23	4.53	4.48	4.40	4.31	4.22	4.12	4.02	3.91	3.90
Israeli Shekel	USDILS	3.75	3.89	3.93	3.96	4.00	3.98	3.95	3.93	3.90	3.86
Russian Ruble	USDRUB	30.4	32.3	32.8	33.3	33.9	33.6	33.1	32.7	32.2	32.0
Russian Ruble	Basket	34.7	36.0	36.3	36.6	37.0	36.9	36.8	36.6	36.5	36.5
Turkish Lira	USDTRY	1.78	1.85	1.88	1.91	1.95	1.92	1.88	1.84	1.81	1.79
South African Rand	USDZAR	7.80	8.36	8.50	8.62	8.73	8.76	8.77	8.79	8.80	8.88
EM Latam											
Brazilian Real	USDBRL	1.74	1.80	1.80	1.80	1.80	1.79	1.78	1.76	1.75	1.75
Chilean Peso	USDCLP	485	506	510	515	519	514	506	499	491	494
Mexican Peso	USDMXN	13.0	13.6	13.5	13.5	13.4	13.1	12.8	12.5	12.2	12.3
Colombian Peso	USDCOP	1807	1849	1850	1850	1850	1850	1850	1850	1850	1857

Source: CIRA, Bloomberg (As at January 30, 2012; Forecasts as of January 19, 2012)

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