FINANCIAL MARKET ANALYSIS

Volume 12, Issue 37 **October 1, 2012**

Equity markets head south on EU and global growth concerns

Equity markets continued their move southwards last week as investors questioned the ability of existing stimulus measures to prop up global growth and as political discord in Europe took a further toll on already fragile sentiment. The S&P 500 index and Stoxx Europe index registered their biggest weekly decline since June even as speculation that China could undertake further stimulus measures helped to limit losses. This week sees a number of key data releases including US ISM Manufacturing (Monday) and Non-farm Payrolls (Friday), European and Chinese PMI figures as well as central bank meetings – Reserve Bank of Australia (Tuesday), European Central Bank, Bank of England (both on Thursday) and Bank of Japan (Friday). The Federal Open Market Committee minutes are also due to be released on Tuesday. Data releases in Asia include China Manufacturing PMI, Trade data from Indonesia and Korea (Monday); Korea CPI (Tuesday); China Non-Manufacturing PMI (Wednesday); Hong Kong Retail Sales (Thursday); Malaysia Trade data and CPI numbers from Philippines and Taiwan (Friday).

	Sep 28 Close	Last week's return	YTD Return	YTD return (USD)
S&P 500:	1440.67	-1.33%	+14.56%	+14.56%
Stoxx Europe:	244.21	-4.09%	+8.16%	+7.46%
Nikkei 225:	8870.16	-2.63%	+4.91%	+3.65%
MSCI Asia ex Japan:	441.30	+0.07%	+12.35%	+12.35%

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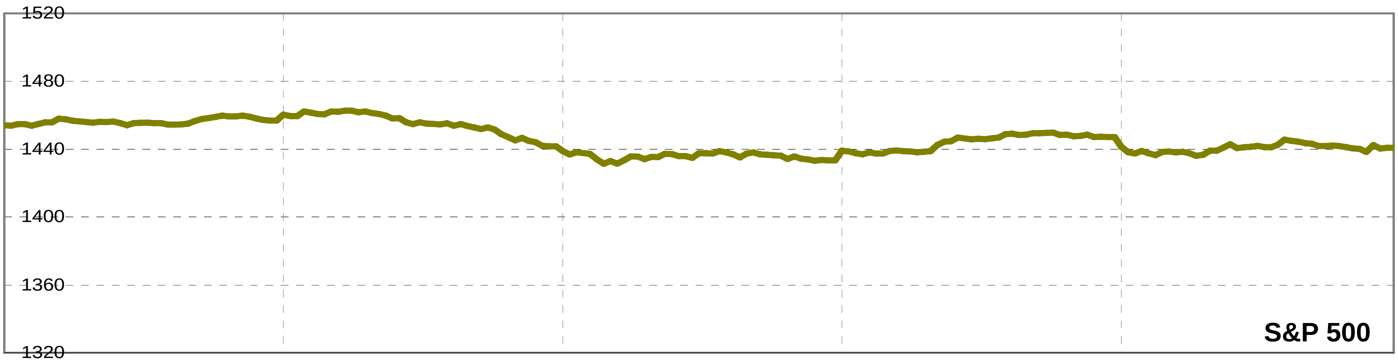


Monday
Sep 24

S&P:	-0.22%
STOXX:	-0.83%
Nikkei:	-0.45%
MSCI Asia ex Japan:	-0.43%

US: The Chicago Fed National Activity index fell to -0.87 in Aug, vs. -0.12 in Jul.

US: The Dallas Fed manufacturing index improved to -0.9 in Sep (Aug -1.6).The output index was 10 vs. 6.4 in Aug.

EU: Germany's Ifo business climate index slipped to 101.4 in Sep from 102.3 in Aug; in contrast with market expectations for a rise to 102.5. This extends the slide since May and takes the index to its lowest level since Feb '10.

EU: UK Markit Household Finance Index fell to 38.4 in Sep from 38.9 in Aug.

AP: Singapore headline CPI edged down to 3.9% YoY (0.4% MoM sa) in Aug, vs. consensus of 3.8% YoY. Core CPI eased to 2.2% YoY (0.2% MoM sa).

AP: Taiwan's unemployment rate rose to 4.29% sa in Aug (Jul 4.25% sa), the highest reading since Dec '11.

Tuesday
Sep 25

S&P:	-1.05%
STOXX:	+0.44%
Nikkei:	+0.25%
MSCI Asia ex Japan:	-0.09%

US: Consumer confidence jumped to 70.3 in Sep from 61.3 in Aug, the best reading since Feb and close to the highest reading of the recovery.

EU: German GfK consumer sentiment indicator remained at 5.9 in Oct, unchanged from the previous month.

EU: UK Aug BBA data revealed a further 6.2% MoM rise in the volume of banks' mortgage approvals volumes to 30,533 from 28,750 in Jul, but the rise was not strong enough to prevent the annual rate from registering another annual decline, of -13.3% YoY, vs. -16.4% YoY in Jul.

JP: The Aug corporate service price index was -0.3% YoY (-0.3% MoM), vs. -0.3% YoY (-0.1% MoM) in Jul.

AP: Hong Kong Aug exports rose 0.6% YoY (Jul -3.5%), imports increased 0.9% YoY (Jul -1.8%); better than market expectations of -4.8% and -3.5% respectively. The Aug trade deficit narrowed to -HK$36bn (Jul -HK$40.1bn).

Wednesday
Sep 26

S&P:	-0.57%
STOXX:	-2.48%
Nikkei:	-2.03%
MSCI Asia ex Japan:	-1.00%

US: Aug new home sales was 373K (-0.3% on a MoM basis) vs. 374K in Jul, below market expectations of 380K. The supply of new homes held steady at 4.5 months; the median price surged higher to US$256.9K (+11.2% YoY), vs. US$231.1K in Jul.

EU: Germany's prelim Sep CPI turned out flat on the month, causing the annual rate to slow to 2.0% from 2.1% in Aug. The HICP measure was also flat MoM and the YoY rate softened to 2.1% from 2.2% in Aug.

EU: French Sep consumer confidence fell to 85 from 86 in Aug.

EU: Spain's central government deficit from Jan-Aug amounted to 4.77% of GDP, vs. a target for this full year of 4.5%.The budget ministry however said that 0.51% of this is due to exceptional items.

JP: Former Prime Minister Shinzo Abe was elected President of the Liberal Democratic Party (LDP), the main opposition party.

AP: Singapore industrial production surprised negatively, declining -2.2% YoY in Aug vs. consensus expectations of +1% and +2.5% YoY in Jul. On a MoM SA basis, IP fell -2.3% (Jul -8.7%, Consensus 0%).

Thursday
Sep 27

S&P:	+0.96%
STOXX:	+0.33%
Nikkei:	+0.48%
MSCI Asia ex Japan:	+0.97%

US: Initial jobless claims for the week ending 22 Sep fell -26K to 359K, vs. market expectations of 375K. The 4-week average fell to 374.0K vs. 378.5K in the week prior.

US: The final 2Q12 GDP reading was +1.3% (Advance +1.5%, 1Q12 +2.0%), below consensus expectations of +1.7%.

US: Aug durable goods orders fell -13.2% (Consensus -5%). Ex transport orders fell -1.6% (Consensus +0.2%).

US: Aug pending home sales declined -2.6% MoM (+9.6% YoY), vs. +2.6% MoM in Jul and market expectations of +0.3% MoM.

EU: The Eurozone Economic Confidence indicator for Sep fell to 85.0 from 86.1 in Aug, the lowest since Aug '09. The forward-looking Business Climate Indicator also deteriorated to -1.34 from -1.18 in Aug.

EU: Germany's unemployment rate held steady at 6.8% for the 10th straight month in Sep.

EU: UK's final 2Q12 GDP was revised up to -0.4% QoQ (-0.5% YoY), from -0.5% QoQ (-0.5% YoY).

EU: UK's 2Q12 current account deficit widened to the highest on record, to -£20.8bn.

AP: Taiwan's leading index fell -0.1% MoM in Aug; the coincident index rose by 0.3% MoM.

Friday
Sep 28

S&P:	-0.45%
STOXX:	-1.58%
Nikkei:	-0.89%
MSCI Asia ex Japan:	+0.64%

US: Personal spending rose 0.5% MoM in Aug, in line with market expectations. Personal income rose 0.1% MoM, below expectations of 0.2% MoM.

US: The Chicago PMI fell to 49.7 in Sep (first sub-50 reading since Sep '09), vs. 53 in Aug and consensus of 52.8.

US: Sep Reuters/ Michigan sentiment rose to 78.3 in the final reading, from 74.3 in Aug, but below consensus of 79.0.

EU: Eurozone prelim Sep CPI rose to 2.7% YoY (Aug 2.6%).

EU: German real retail sales increased +0.3% MoM (-0.8% YoY) in Aug, vs. -1.0% MoM (-1.6% YoY) in Jul.

EU: UK service sector output jumped 1.1% MoM in Jul after -1.5% MoM in Jun.

EU: UK Sep GfK consumer confidence index rose to -28 from -29 in Aug.

JP: The unemployment rate eased to 4.2% in Aug, from 4.3% in Jul.

JP: Real household spending rose 1.8% YoY in Aug, about the same pace as Jul (1.7%).

JP: Retail sales rebounded in Aug, to a 1.8% YoY (1.5% MoM), vs. -0.7% YoY (-1.5% MoM) in Jul.

JP: Industrial production dropped -1.3% MoM in Aug for a second consecutive fall.

JP: Nationwide core CPI declined -0.3% YoY in Aug. Headline CPI fell -0.4% YoY.

AP: Korea's industrial production contracted for the third month in Aug (-0.7% MoM), but edged up on a YoY basis (+0.3% YoY). Market expectations were for a +0.7% YoY and -0.4% MoM result.

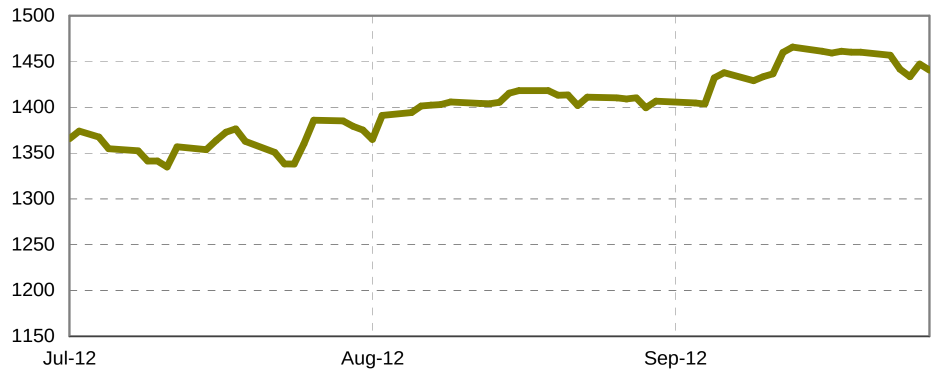
Over the Weekend
Sep 29 and Sep 30

AP: China's manufacturing contracted for an 11th straight month. The HSBC manufacturing PMI was 47.9 for Sep vs. 47.6 in Aug.

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

US/NORTH AMERICA

S&P 500 (2/7/2012 to 28/9/2012)



Source: Bloomberg

Economic Outlook

Uncertainty takes it toll

Uncertainty over economic policy and the resolution of the fiscal cliff increasingly appears to be making its way into hard data on business activity. The sharp, abrupt downturn in durable goods orders since mid-year appears far weaker than fundamentals.

Indeed, the 20% annualized decline in core capital goods orders over three months has only been experienced in recessions and is far out of step with moderate consumer spending and high corporate profitability. The downdraft in core orders points to little if any growth in equipment and software spending heading toward the fiscal cliff, possibly checking overall GDP growth in 4Q12 near 1%.

Citi analysts expect another modest gain of 110,000 in payroll employment this week. Despite some hints of underlying improvement in labour markets, September readings tend to be understated on the first pass and business uncertainty may continue to hold back hiring. Local public education jobs present a wild card in this report along with manufacturing, especially among export-sensitive industries.

The Week Ahead

1/10

- The **ISM manufacturing activity** barometer probably remained soft in September at 49.0.
- Citi analysts look for a rebound in **construction put in place** in August (0.3%)

3/10

- Citi analysts expect that September **ISM non-manufacturing activity** gauge edged down slightly to 52.0.

4/10

- **Initial jobless claims** for the week ending September 29 likely climbed by 16K to 375K after a larger-than-expected drop in the prior week.
- August **factory orders** likely plummeted -5.9% on the already reported US$30 billion drop in durable goods.

5/10

- Citi analysts expect another soft **payroll report** of 110K in September.

Equities

Overweight Transportation industry group

	Last week's close	Last week's return	YTD return
S&P 500	1440.67	-1.33%	+14.56%
DJIA	13437.13	-1.05%	+9.98%
Nasdaq	3116.23	-2.00%	+19.62%

Following recent underperformance, Citi analysts have raised the Transportation industry group to overweight from neutral, reflecting intriguing valuation, trough-like earnings revision momentum and seasonal trading patterns. While there have been several negative profit preannouncements of late, they appear to be priced in already.

Meanwhile, unattractive valuation and lead indicators argue for caution in the Household & Personal Products as well as Food, Beverage & Tobacco sectors. Nevertheless, earnings revision momentum remains positive and Citi analysts believe this may prevent substantive weakness and hence, the more neutral stance.

Finally, Citi analysts have upgraded their underweight stance on Consumer Services and Software & Services sectors to neutral as they are likely to benefit from positive lead indicators and seasonal trading boost. That said, both sill face valuation challenges.

Bonds

Preference for high-grade corporates and emerging market debt

	Sep 28 2012	Sep 21 2012	Sep 14 2012
2-yr Try:	0.230%	0.258%	0.250%
5-yr Try:	0.625%	0.670%	0.713%
10-yr Try:	1.634%	1.753%	1.866%

Treasuries: Citi analysts expect yield curves to flatten, and for gains to be potentially generated in the intermediate- to longer-dated maturity range.

High-grade corporates: A strengthening technical backdrop, large cash balances, low default rates, decreasing net issuance, and a smaller universe of safe haven assets continue to remain supportive.

High-yield corporates: Although valuations have become more attractive, Citi analysts remain cautious due to festering concerns in Europe and expectation that global growth will continue to slow. As such, they selectively favour high quality, double-B rated issuers and select single-B rated issuers with strong fundamentals.

EMD: Increased corporate bond issuance in emerging markets may present opportunities to pick up yield while benefiting from stronger domestic growth.

Currencies

USD: Risk on, USD lower near term

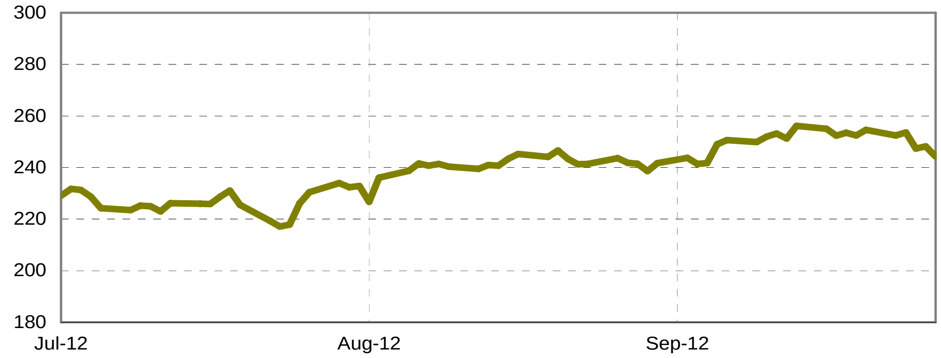
December 2012 forecasts		
EURUSD	**USDJPY**	**USDCAD**
1.27	77	0.96

Fed QE3, plus extended guidance and Twist, are risk positive but USD negative. In Citi's view, some further downside does seem likely over the next 0-3 months.

Medium term though, Citi's forecasts are USD bullish, possibly reflecting likely US cyclical outperformance plus a return to impaired risk appetite as a number of adverse developments hit markets, possibly including GREXIT and a much a more prolonged/ deeper slowdown than expected in China. Medium term, FX investors are likely to believe that the US economy may be sub-par but that it is still likely to better other regions. Equity market outperformance, and bond market underperformance on trend suggest similar expectations are in other asset markets These factors are likely to drive USD appreciation over the medium term, absent US policy disasters.

Source: CR

STOXX (2/7/2012 to 28/9/2012)



Source: Bloomberg

Economic Outlook

ECB – No action expected in October, but lower rates are in the pipeline

Citi analysts expect the European Central Bank (ECB) to leave rates unchanged at the October meeting and to keep the non-standard policy tools unchanged. In the press conference, ECB President Mario Draghi is likely to highlight downside risks for the economic outlook. In Citi's view, this could suggest that the ECB is leaving the door open for a reduction in the refi rate in 4Q12, despite elevated inflation rates. However, recent comments from Governing Council members signal that the next refi rate cut is unlikely to be accompanied by a reduction in the deposit rate into negative territory. However, Citi analysts expect the ECB to cut the refi rate further to 0.25% in early 2013, and at that stage also lower the deposit rate to -0.25%.

The ECB is likely to stress that it is ready to use the outright monetary transactions (OMT) programme in a "whatever it takes" way if a country has met the conditions. The ECB President may also stress that the Eurosystem is unwilling to restructure its holdings of Greek debt. Following a debate on the publication of minutes of the Governing Council Meetings, it might well be that the ECB decides to announce that in the future it will release the minutes into the public domain in a timely fashion, in order to increase transparency.

The Week Ahead

1/10

- **Italy:** Citi analysts expect the August **unemployment rate** (seasonally adjusted) to increase by 0.1ppts to 10.8% after stabilising at 10.7% in July.

2/10

- **Euro Area:** Higher energy prices and to some extent food prices have probably contributed to the increase in **producer prices** in August (0.4% MoM, 2.4% YoY).

3/10

- **UK:** After the marked bounce in August (nearly 3 points), Citi analysts expect a slightly softer **services PMI** reading in September (52.5).

5/10

- **Germany:** After the increase in July, Citi analysts expect a fall in August **incoming orders**, reflecting both a contraction in domestic and foreign orders (-0.5% MoM, -4.3% YoY).
- **Spain:** Citi analysts expect **industrial production** (NSA) to fall by 5.6% YoY in August, following a milder-than-expected (2.6% YoY) contraction in the previous month.

Equities

Equity markets likely to overshoot Citi's year end targets

	Last week's close	Last week's return	YTD Return
STOXX	244.21	-4.09%	+8.16%
FTSE 100	5742.07	-1.89%	+3.05%
DAX	7216.15	-3.16%	+22.34%

European equities have enjoyed a nice run over the past few months. While the macro environment has been weak, policy action has reduced some tail risks.

At a market level, we are now close to Citi's 2012 year-end target for the Stoxx (275) and the FTSE 100 (6000). Citi analysts think equity markets are more likely to overshoot than undershoot these targets and expect approximately 10% total returns to the end of next year. But, they caution that investors should be wary of being too aggressive.

Indeed, within the market, the last few weeks have been led by risk, value, financials and Southern Europe. Citi analysts believe that investors should now be more selective in these areas. Recent underperformance of core themes, such as defensive growth strategies, presents an opportunity to revisit these structural investment themes.

Bonds

Favour UK Gilts vs German Bunds

	Sep 28 2012	Sep 21 2012	Sep 14 2012
2-yr Try:	0.021%	0.036%	0.104%
5-yr Try:	0.510%	0.593%	0.709%
10-yr Try:	1.442%	1.596%	1.706%

Citi analysts remain positive on the long end of the German yield curve, which has bull-flattened around 25 basis points. Indeed, the yield difference between 10 year and 30 year German Bunds now stands at around 50 basis points, a six-month low.

As global growth slows further and heightened uncertainties persist, high quality government bonds in safe haven markets, particularly UK Gilts are likely to be well-supported.

Currencies

EUR: Further upside near term
GBP: Driven by Euro outlook

December 2012 forecasts		
GBPUSD	**USDCHF**	**EURGBP**
1.59	0.95	0.79

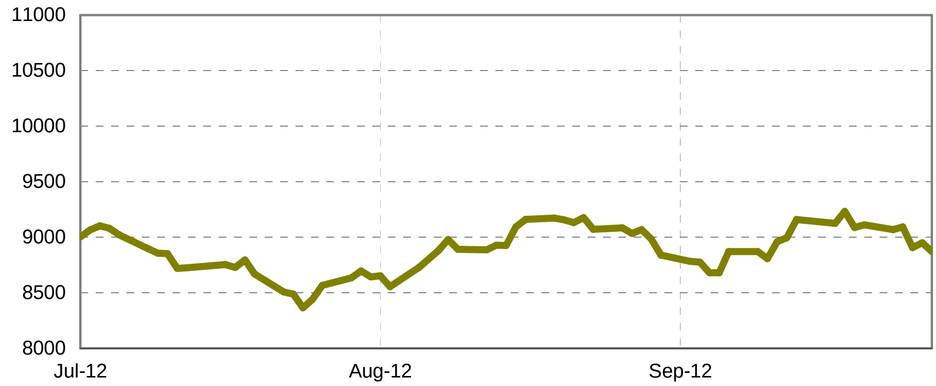
The strong statement from the ECB and near unanimity of the decision to instigate the OMT programme are likely to lead to further unwinds of short EUR speculative and hedging positions. Accordingly, Citi's 0-3 months EUR/USD forecast has been raised from 1.25 to 1.32.

Meanwhile, improving risk appetite has buoyed GBP/USD to above the 1.60 level for the first time in four months. The rally of EUR/USD has outweighed this however, and thus EUR/GBP has actually edged higher in recent weeks. Citi analysts think this recent dynamic of 'EUR dependence' could likely persist for sterling. Citi analysts are expecting some modest gains for GBP on the back of better risk appetite, expecting 1.63 in 0-3 months.

Source: CR

JAPAN

Nikkei 225 (2/7/2012 to 28/9/2012)



Source: Bloomberg

The Week Ahead

1/10

- **Bank of Japan Quarterly Tankan Survey:** The business confidence diffusion index (DI) at large manufacturing firms may drop to -5 in the September survey after -1 in June. Citi analysts expect continued resilience in private capital investment plans for fiscal 2012 in the September Tankan. However, despite healthy capex plans, companies may be holding off on actual spending in light of weaker economies abroad and entrenched yen strength.

Economic Outlook

Can Japan put its hopes in the new LDP leader this time?

Former Prime Minister Shinzo Abe was elected as head of the Liberal Democratic Party (LDP) last week. The party Presidential election was generally viewed as an opportunity to choose the next Prime Minister because the LDP is widely expected to secure the highest number of seats in the upcoming Lower House election. With Abe's economic policy sounding different to that of other candidates, some observers believe an Abe-led government could bring some change in the economy and financial markets. Citi analysts however doubt this due to the following reasons: 1) The choice of Abe as LDP leader has likely made the party's clear victory at the upcoming election less certain. Even if he takes office after the election, there is no guarantee that he can form a government with a firm bedrock to steadily implement policies; 2) Abe appears to place more emphasis on growth rather than fiscal restoration. Generally, his economic policy has not changed since his PM days back in 2006-2007, when his government failed to accomplish meaningful results on the economic front. Moreover, judging from his comments last Wednesday, his primary and immediate concerns appear to be diplomatic and security issues rather than the economy; and 3) On the monetary policy front, the successor to Bank of Japan governor Shirakawa could be appointed after the general election, which implies that Abe could exert a strong influence on the selection of a more dovish central banker, assuming an LDP victory. But the appointment has to be approved by the Diet and thus could limit Abe's discretion.

Equities

China risks emerging

	Last week's Close	Last week's return	YTD return
Nikkei	8870.16	-2.63%	+4.91%
Topix	737.42	-2.51%	+1.21%

Following the ECB and FRB, the BOJ decided upon further monetary easing policies on Sept 19, but TOPIX ended down (-0.1%) as Japanese stocks slowed on concerns over China demonstrations.

Citi analysts expect an extended period of strain in the China-Japan relationship, but believe both sides may attempt to avoid any escalation into military confrontation or economic sanctions. However two countries are likely to be under pressures weighing on bilateral economic relations. And in particular may lead to some sector-specific impact.

China has become Japan's largest trading partner from 2000 to 2011. The share of trade with China in Japan's total foreign trade doubled from 10% to 20%. Public boycotting of Japanese goods has already started, resulting in falling sales of Japanese cars and electronics in China. And tourism & airline sectors could suffer; in 2010, 1.4 million Chinese visited Japan.

Source: CR

Bonds

Some JGB underperformance around the fiscal year-end expected

	Sep 28 2012	Sep 21 2012	Sep 14 2012
2-yr Try:	0.098%	0.096%	0.098%
5-yr Try:	0.197%	0.210%	0.192%
10-yr Try:	0.778%	0.802%	0.804%

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

Currencies

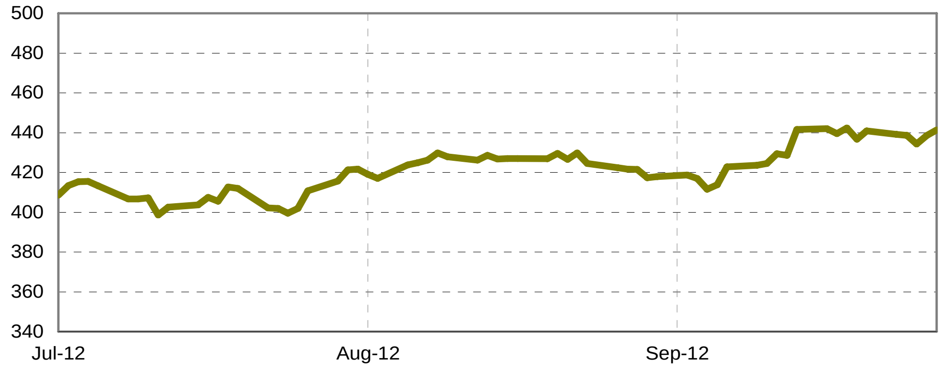
JPY: USD/JPY staying strong

December 2012 forecast		
USDJPY	**EURJPY**	**AUDJPY**
77	98	79.0

In the medium term, Citi analysts expect risk aversion to rise again reflecting GREXIT, China concerns and so on. Furthermore, the extension of the Fed's balance sheet in response to risk aversion and a subpar recovery in the US economy may likely continue to be more aggressive than that by the BoJ. Longer term, the relatively greater ease by the Fed could be a driver taking USD/JPY lower.

Despite a large fiscal deficit and high public debt mix, Japan continues to run a current account surplus and Citi analysts do not see this disappearing over the next year or so. Medium term concerns on Japan's sovereign solvency, and the associated need for higher rates or a lower currency, will likely be postponed for a while longer. Citi analysts forecasts USD/JPY over 6-12 months at 76.

MSCI Asia ex Japan (2/7/2012 to 28/9/2012)



Source: Bloomberg

The Week Ahead

1/10

- **China: Manufacturing PMI (CFLP)** may edge up to 50.1 in September (Aug 49.2) due to seasonality and stabilizing final demand.
- **Indonesia: CPI inflation** likely eased to 4.3% in September amid a high base effect and post-fesitivities.

2/10

- **Korea**: **CPI inflation** probably rose in September (2.0% YoY, 0.7% MoM) on higher food prices due to weather and holiday effects.

3/10

- **China: Non-Manufacturing PMI (CFLP)**

4/10

- **Hong Kong:** Weak **retail sales** growth likely prevailed in August (Value 5.9% YoY, Volume 3.5% YoY), affected by conservative spending and steeper than usual summer sales.

5/10

- **Taiwan:** September **CPI inflation** likely eased to 2.8% YoY on falling vegetables and gasoline prices.

Economic Outlook

China: Aggressive RRR cuts less likely in the near term

Since the Federal Reserve announced QE3 in mid-September, USDCNY spot has been weaker than the People's Bank of China's (PBOC) fixing, a reversal of the pattern in the preceding months when RMB depreciation expectation dominated. While it remains to be seen whether QE3 could trigger capital inflow, the change of exchange rate expectation may reduce capital outflow in the months ahead. If capital outflow eases or even reverses, the constraints on base money growth could be released. The trade account is likely to register more surpluses and FDI flow may remain positive for the rest of the year. As a result, the PBOC's FX purchase may turn positive. This may partially explain why the PBOC has held off reserve requirement ratio (RRR) cuts recently and instead resorted to reverse repos to inject liquidity.

Citi analysts believe the risk of large-scale capital inflow is low in the short run and continue to expect two more RRR cuts for the rest of the year, although the PBOC's preference for reverse repos reduces the chance. In the medium term, base money growth may stall as a result of falling trade surplus and rising investment abroad, and RRR may need to be cut to increase the money multiplier and support broad money growth.

Equities

Staying Underweight in Chinese equities

	Last week's close	Last week's return	YTD Return
MSCI Asia ex Japan	441.30	+0.07%	+12.35%

As the relative return gap between Hong Kong and China equities widens further, investors are questioning if the time has now come to switch the weights. However, Citi analysts believe otherwise. Indeed, capital outflows & decelerating PBOC balance sheet appear to be the root of weak Chinese equity market. Furthermore, it is also not helping that Chinese earnings revisions remain weak and earnings growth is now trailing the regional average.

Valuations are not a constraint, though vs GEMS or global indexes China is not as cheap as vs regional peers. China delivers higher ROE but the sustainability is widely questioned, hence the discount valuations. When it comes to EBIT margins, these are actually lower in China than if we adjusted them vs global peers or regional peers. China does not enjoy supernormal profit margins nor has corporate China followed the government's lead and pushed the capex to sales ratio to a new all time high. Much the opposite, the capex to sales ratio is at a post- 1995 low.

Bonds

Prefer High yielding bonds with sound fundamentals

Citi analysts are constructive toward higher yielding bonds, with solid fundamentals. In particular, they prefer extending duration in longer-duration Sri Lanka Treasury bonds given external improvements and a more flexible application of the 12.5% non-resident quota (to the combined outstanding amount of Treasury bills and bonds, rather than applying the quota separately per instrument) that could increase allocation to longer duration.

Meanwhile, the recent reform progress in India may help avert an imminent downgrade, marginally improve external and fiscal prospects, and could provide some support for INR bonds at above 8% yield.

Indonesia bonds may also fare relatively well if we are to see continued "risk on", though the less favourable IDR outlook could be a constraint.

Currencies

AUD: Vulnerable longer term
EM Asia: Weaker in the medium term

December 2012 forecasts		
AUDUSD	**NZDUSD**	**USDSGD**
1.02	0.82	1.25

Citi analysts think the AUD is especially vulnerable longer term to the slowdown underway in China, but this is unlikely to become evident short term with the major Central Banks in super easy policy mode. Over 0-3 months, Citi analysts expect AUD/USD 1.05.

Citi analysts forecast Asian currencies weaker in the medium term, reflecting mounting concerns surrounding the Chinese growth story. This has led Citi to project USD/CNY flat over the forecast horizon and it has powerful implications for export-oriented Asian currencies. In the shorter, 0-3 months time frame, most currencies are forecast to stay flat against the dollar, with only a handful of exceptions like SGD where the currency acts as a monetary policy variable and is being targeted weaker, and TWD where recent currency strength seems excessive in the context of a sharply weaker economy.

Source: CR

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	13437.13	13653.24	10404.49	-1.05%	+9.98%	+9.98%
S&P 500	1440.67	1474.51	1074.77	-1.33%	+14.56%	+14.56%
Nasdaq	3116.23	3196.93	2298.89	-2.00%	+19.62%	+19.62%
EUROPE						
DJ Euro STOXX	244.21	257.68	201.83	-4.09%	+8.16%	+7.46%
FTSE 100	5742.07	5989.07	4868.60	-1.89%	+3.05%	+7.33%
DAX	7216.15	7478.53	5125.44	-3.16%	+22.34%	+21.55%
JAPAN						
Nikkei 225	8870.16	10255.15	8135.79	-2.63%	+4.91%	+3.65%
TOPIX	737.42	872.42	692.18	-2.51%	+1.21%	+0.00%
ASIA						
MSCI Asia ex Japan	441.30	454.52	353.80	+0.07%	+12.35%	+12.35%
Hong Kong Hang Seng	20840.38	21760.34	16170.35	+0.51%	+13.05%	+13.23%
Shanghai Composite Index	2086.17	2536.78	1999.48	+2.93%	-5.15%	-4.94%
Taiwan Weighted Index	7715.16	8170.72	6609.11	-0.51%	+9.09%	+12.67%
Korea KOSPI	1996.21	2057.28	1658.06	-0.31%	+9.34%	+13.65%
Mumbai Sensex	18762.74	18869.94	15135.86	+0.05%	+21.40%	+21.98%
Singapore Straits Times Index	3060.34	3088.45	2521.95	-0.58%	+15.64%	+22.28%
Kuala Lumpur Composite	1636.66	1655.49	1353.45	+0.80%	+6.92%	+10.50%
Thai Stock Exchange	1298.79	1300.17	843.69	+0.97%	+26.67%	+29.80%
Jakarta Composite Index	4262.56	4272.83	3256.44	+0.42%	+11.53%	+6.33%
Philippines Stock Exchange Index	5346.10	5403.16	3798.06	+1.02%	+22.28%	+28.54%
Australia All Ordinaries	4406.34	4515.00	3905.20	-0.55%	+7.18%	+8.55%
EMEA						
Russia MICEX Index	1458.26	1639.62	1241.62	-2.57%	+4.00%	+7.13%
South Africa JSE All Shares Index	35757.98	36647.98	28906.70	-1.24%	+11.79%	+8.89%
Turkey ISE National 100 Index	66396.71	68540.68	48812.40	-2.20%	+29.51%	+35.94%
LATIN AMERICA						
Mexico Bolsa Index	40866.96	41600.59	32258.39	+1.31%	+10.22%	+19.36%
Brazil Bovespa Index	59175.86	68969.99	49432.89	-3.50%	+4.27%	-4.03%
COMMODITIES						
Gold	1772.10	1802.93	1522.65	-0.06%	+13.33%	+13.33%
Oil	92.19	110.55	74.95	-0.75%	-6.72%	-6.72%
FIXED INCOME						
Citigroup World Government Bond Index	631.26	631.26	597.03	+0.39%	+3.61%	+3.61%

Source: Bloomberg (As at September 28, 2012)

CURRENCY FORECASTS

Currency		1-Oct-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
G10-US Dollar											
Euro	EURUSD	1.28	1.27	1.20	1.15	1.17	1.19	1.21	1.23	1.25	1.25
Japanese yen	USDJPY	78	77	77	76	77	78	79	79	80	80
British Pound	GBPUSD	1.61	1.59	1.55	1.52	1.53	1.54	1.56	1.57	1.58	1.58
Swiss Franc	USDCHF	0.94	0.95	1.00	1.04	1.02	1.01	0.99	0.97	0.96	0.96
Australian Dollar	AUDUSD	1.03	1.02	0.99	0.96	0.96	0.96	0.95	0.95	0.95	0.95
New Zealand	NZDUSD	0.83	0.82	0.80	0.79	0.77	0.75	0.73	0.71	0.69	0.69
Canadian Dollar	USDCAD	0.99	0.96	0.97	0.98	0.98	0.98	0.97	0.97	0.97	0.97
Dollar Index	DXY	80.12	80.67	83.60	86.06	85.11	84.17	83.29	82.41	81.59	81.59
G10 Crosses											
Japanese yen	EURJPY	100	98	92	88	90	93	95	98	100	100
Swiss Franc	EURCHF	1.21	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
British Pound	EURGBP	0.80	0.79	0.78	0.76	0.77	0.77	0.78	0.79	0.79	0.79
Swedish Krona	EURSEK	8.44	8.62	8.47	8.35	8.34	8.33	8.32	8.31	8.30	8.30
Norwegian Krone	EURNOK	7.36	7.37	7.28	7.20	7.22	7.24	7.26	7.28	7.30	7.30
Norwegian Krone	NOKSEK	1.15	1.17	1.16	1.16	1.15	1.15	1.15	1.14	1.14	1.14
Australian Dollar	AUDNZD	1.25	1.25	1.23	1.22	1.25	1.29	1.32	1.35	1.38	1.38
Australian Dollar	AUDJPY	80.5	79.0	75.7	73.1	73.7	74.3	74.9	75.5	76.0	76.0
EM Asia											
Chinese Renminbi	USDCNY	6.28	6.33	6.34	6.35	6.31	6.27	6.23	6.18	6.15	6.15
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	9597	9680	9773	9843	9805	9767	9729	9692	9658	9658
Indian Rupee	USDINR	52.9	55.0	55.6	55.9	55.1	54.4	53.7	52.9	52.3	52.3
Korean Won	USDKRW	1115	1126	1134	1138	1123	1109	1096	1082	1069	1069
Malaysian Ringgit	USDMYR	3.07	3.08	3.11	3.13	3.13	3.12	3.12	3.11	3.11	3.11
Philippine Peso	USDPHP	41.9	41.7	42.4	42.9	42.5	42.0	41.6	41.2	40.8	40.8
Singapore Dollar	USDSGD	1.23	1.25	1.26	1.27	1.26	1.26	1.25	1.24	1.24	1.24
Thai Baht	USDTHB	30.9	30.9	31.5	31.9	31.5	31.1	30.7	30.2	29.9	29.9
Taiwan Dollar	USDTWD	29.3	30.0	30.3	30.4	30.0	29.6	29.2	28.8	28.5	28.5
EM Europe											
Czech Koruna	EURCZK	25.14	25.09	25.53	25.85	25.57	25.29	25.01	24.73	24.46	24.46
Hungarian Forint	EURHUF	286	296	304	309	305	301	297	293	290	290
Polish Zloty	EURPLN	4.11	4.20	4.31	4.38	4.28	4.18	4.08	3.98	3.90	3.90
Israeli Shekel	USDILS	3.92	4.06	4.14	4.19	4.15	4.11	4.07	4.03	3.99	3.99
Russian Ruble	USDRUB	31.2	32.3	34.0	35.4	35.0	34.7	34.3	34.0	33.7	33.7
Russian Ruble	Basket	35.2	36.0	37.0	37.8	37.7	37.7	37.6	37.5	37.5	37.5
Turkish Lira	USDTRY	1.80	1.84	1.88	1.92	1.90	1.89	1.88	1.86	1.85	1.85
South African Rand	USDZAR	8.29	8.50	8.61	8.70	8.70	8.71	8.71	8.72	8.74	8.74
EM Latam											
Brazilian Real	USDBRL	2.03	2.02	2.03	2.05	2.05	2.05	2.05	2.05	2.05	2.05
Chilean Peso	USDCLP	475	490	501	509	505	501	497	493	490	490
Mexican Peso	USDMXN	12.9	12.7	13.0	13.2	13.0	12.8	12.6	12.4	12.2	12.2
Colombian Peso	USDCOP	1801	1830	1841	1850	1850	1850	1850	1850	1851	1851

Source: CR, Bloomberg (As October 1, 2012; Forecasts as of September 19, 2012)

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