WEEKLY MARKET UPDATES

Volume 12, Issue 06 **February 20, 2012**

Stocks post weekly advance on Greek bailout optimism

Stock markets rallied last week amid optimism that Eurozone finance ministers will approve the Greek bailout this week. The S&P 500 climbed 1.38% to end the week at 1,361.23, the Stoxx Europe index added 1.76% to 248.76 and the MSCI Asia ex Japan index rose 1.38% to 445.85. The People's Bank of China (PBOC) cut the reserve requirement ratio (RRR) by 50 bps on Sunday. The cut, which will become effective on February 24, will bring RRR for large banks to 20.5% and for smaller banks to 18.5%. The Greek PSI deal/extra €130bn bailout remains the central issue again this week, with Monday's Eurogroup now the next planned meeting to focus on. This is followed by the G20 meeting in Mexico on February 25/26. Data wise in Europe, we get Euro Area PMIs on Wednesday and the German Ifo on Thursday. In the UK, the Bank of England minutes will be released on Wednesday followed by the second release of 4Q11 GDP on Friday. Data is light in the US – existing home sales (Wednesday); Reuters/Michigan sentiment and new home sales (Friday). In Australia we have the Reserve Bank of Australia minutes on Tuesday as well as a speech by Governor Stevens the same day. In Asia, we get 4Q11 GDP data from Thailand (Monday) and Taiwan (Wednesday); inflation data from Hong Kong (Monday), Malaysia (Wednesday) and Singapore (Thursday); and industrial production from Taiwan (Thursday) and Singapore (Friday).

	Feb 17 close	Last week's return	YTD return	YTD return (USD)
S&P 500:	1361.23	+1.38%	+8.24%	+8.24%
Stoxx Europe:	248.76	+1.76%	+10.18%	+11.82%
Nikkei 225:	9384.17	+4.88%	+10.98%	+7.58%
MSCI Asia ex Japan:	445.85	+1.38%	+13.51%	+13.51%

In this issue:

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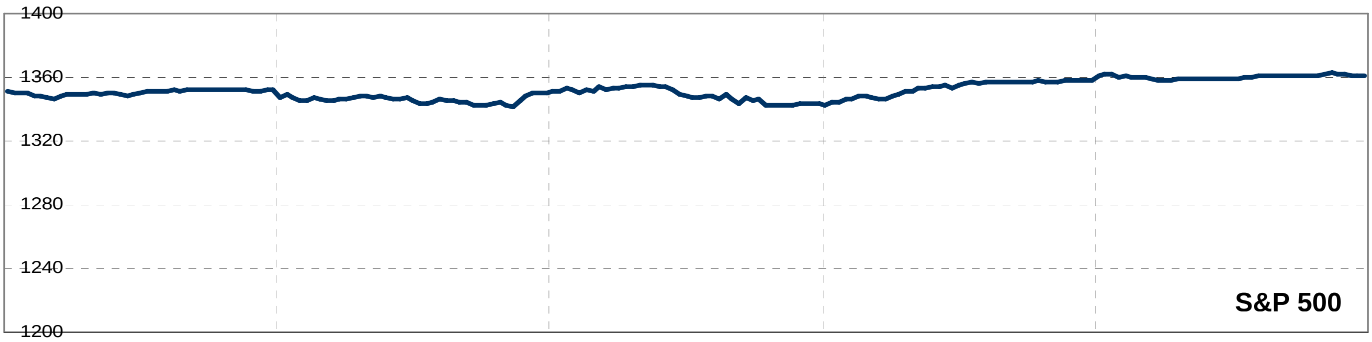
TAKING STOCK



Monday Feb 13

S&P:	+0.68%
STOXX:	+0.45%
Nikkei:	+0.58%
MSCI Asia ex Japan:	+0.78%

Others: The OECD says the international economic outlook is showing tentative signs of improvement, led by US and Japan, though growth prospects are mixed in the Eurozone. The OECD's Dec composite leading indicator rose by 0.2pts for the whole OECD area, by 0.7pts in the US, and by 0.2pts in Japan, but fell by -0.1pt in the Eurozone and by the same for the UK.

US: White House economic forecasts: sees real GDP at 2.7% in 2012, 3% in 2013, and 3.6% in 2014; CPI at 2.2% in 2012, 1.9% in 2013, and 2% in 2014; and the unemployment rate at 8.9% in 2012, 8.6% in 2013, and 8.1% in 2014.

EU: German wholesale price index climbed 1.2% MoM in Jan, vs. 0% MoM in Dec.

EU: Moody's cut the debt ratings of six countries – Italy (A2 to A3 O/L -ve), Spain (A1 to A3 O/L -ve), Portugal (Ba2 to Ba3 O/L -ve), Slovakia, Slovenia and Malta. Moody's also revised its outlook for the UK's and France's top Aaa rating to negative.

JP: Real GDP fell -0.6% QoQ and -2.3% QoQ annualized in 4Q11, the first contraction in two quarters. The result undershot the market median projection of -0.3% QoQ and -1.4% QoQ annualized.

JP: Tertiary industry activities rose 1.4% MoM (0.6% YoY) in Dec after -0.6% MoM (-0.5% YoY) in Nov.

AP: Australia housing finance approvals rose for the ninth consecutive month in Dec (2.3%), exceeding market expectations of 1.8%.

Tuesday Feb 14

S&P:	-0.09%
STOXX:	-0.21%
Nikkei:	+0.59%
MSCI Asia ex Japan:	-0.52%

US: Retail sales rose 0.4% MoM in Jan, vs. market expectations of 0.8% MoM and 0.1% MoM in Dec.

US: Import prices rose 0.3% MoM (7.1% YoY) in Jan, after -0.1% MoM in Dec, bolstered by petroleum price hikes (1.2% MoM) and industrial supplies (0.3% MoM). Ex-petroleum import prices were steady MoM (2.5% YoY).

US: Business inventories rose 0.4% MoM in Dec, vs. market expectations of 0.5% MoM and 0.3% MoM in Nov.

EU: Eurozone Dec industrial production declined -1.1% MoM (-2.0% YoY), vs. market expectations of -1.2% MoM (-1.0% YoY).

EU: The Feb German ZEW survey showed improvement in the investor sentiment to +5.4 (Consensus -12.0) from -21.6 in Jan, the first positive print since May '11 and the highest since Apr '11. The current conditions sub-indicator jumped to 40.3 in Feb from 28.4 in Jan.

EU: Portugal's 4Q11 GDP fell by a sharp -1.3% QoQ, after four quarters of smaller negative growth rates, taking the YoY rate down to -2.

EU: UK CPI fell to 3.6% YoY in Jan from 4.2% YoY in Dec on a -0.5% MoM drop.

JP: The Bank of Japan kept the policy rate at 0.1% but expanded an asset-purchase program by ¥10tn to ¥65tn. BoJ also set an inflation target of 1%.

AP: India WPI eased to the lowest level in more than two years in Jan, 6.55% YoY, vs. 7.47% in Dec and market expectations of 6.7%.

Wednesday Feb 15

S&P:	-0.54%
STOXX:	+0.42%
Nikkei:	+2.30%
MSCI Asia ex Japan:	+1.50%

US: The Empire State manufacturing index rose to 19.53 in Feb (Jan 13.48). On an ISM-weighted basis, the index fell to 54.1 from 55.1 as the new orders component slipped to 9.73 from 13.70.

US: Industrial production was unchanged in Jan vs. 1.0% in Dec and market expectations of 0.7%. Capacity utilization fell to 78.5% (Dec 78.6%).

US: The Feb NAHB housing market index was 29 vs. 25 in Jan and market expectations of 26. The housing index and single family home sales indices were the highest since May '07.

EU: Eurozone preliminary 4Q11 GDP fell by -0.3% QoQ vs. +0.1% in 3Q11.

EU: UK Jan claimant count (c-c) unemployment rose 6.9K (Consensus 3K, Dec 1.9K). The c-c unemployment rate held steady at 5.0%, whilst the broader ILO-based definition of u/e rose by 48K in 4Q11, to keep the rate steady at 8.4% (same as in the 3mths to Nov), but higher than 3Q's 8.3%. The ILO-based u/e rate of 8.4% contrasts with 7.9% in 4Q10.

AP: Australia consumer sentiment rose 4.1% to 101.1 in Feb, the highest level since Nov, from 97.1 in Jan.

AP: Korea's unemployment rate inched up 0.1ppts to 3.2% s.a. in Jan.

AP: Malaysia 4Q11 GDP slowed to 5.2% YoY (3Q11 5.8%, Consensus 4.8%). Full year 2011 GDP growth came in at 5.1% (2010 7.2%).

AP: Singapore Dec retail sales slowed more than expected to 4.2% YoY, -2.4% MoM s.a. (Nov 6.2% YoY, -0.9% MoM s.a.).

Thursday Feb 16

S&P:	+1.10%
STOXX:	-0.21%
Nikkei:	-0.24%
MSCI Asia ex Japan:	-1.35%

US: Initial jobless claims for the week ending 11 Feb declined -13K to 348K (lowest since Mar '08), vs. 361K in the week prior and market expectations for 365K. The 4-week average was 365.3K (lowest since Apr '08), down from 367.0K in the week prior.

US: Jan PPI rose 0.1% MoM (+4.1% YoY) vs. -0.1% MoM (+4.8% YoY) in Dec. PPI ex food and energy was +0.4% MoM (+3.0% YoY) vs. +0.3% MoM (+3.0% YoY) in Dec.

US: Housing starts rose to 699K (+1.5% MoM) in Jan vs. 689K in Dec and market expectations for 675K. Building permits increased 0.7% MoM to 676K vs. 671K in Dec (Consensus 680K).

US: The Philadelphia Fed manufacturing business outlook index rose to 10.2 in Feb from 7.3 in Jan. On an ISM-weighted basis, the index increased modestly to 51.2% from 50.7%.

EU: UK Nationwide consumer confidence index rose to 47 (5-month high) in Jan from 38 in Dec.

AP: Australian employment rebounded strongly in Jan, +46.3K new jobs, vs. market expectations of +10K and -35.6K in Dec. The unemployment rate fell to 5.1% from 5.2% in Dec, the lowest in six months.

AP: Singapore 4Q11 GDP was revised up to +3.6% YoY, -2.5% QoQ SAAR, vs. advance estimates of +3.6% YoY, -4.9% QoQ. For 2011, GDP rose +4.9%; 2010 revised to 14.8% from 14.5%. Ministry of Trade and Industry maintains its 2012 GDP growth forecast at 1%-3%.

Friday Feb 17

S&P:	+0.23%
STOXX:	+1.30%
Nikkei:	+1.58%
MSCI Asia ex Japan:	+0.98%

US: CPI rose 0.2% MoM in Jan vs. market expectations of 0.3%. On a YoY basis, CPI rose 2.9% vs. 2.8% expected. Core CPI rose 0.2% MoM (2.3% YoY).

US: The Jan Conference Board leading economic indicators report revealed an overall increase of 0.4% MoM, vs. 0.5% MoM in Dec, below market expectations for 0.5% MoM.

EU: German Jan PPI rose 0.6% MoM (3.4% YoY).

EU: UK Jan volume retail sales growth of 0.9% MoM was stronger than consensus expectations of -0.4% MoM, and marks an acceleration from Dec's 0.6% MoM rise.

AP: Singapore Jan NODX fell -2.1% YoY (Dec +9.0% YoY, Consensus -1.6% YoY) on Chinese New Year effect. But on a MoM SA basis, NOXD rose 0.9% vs. 16.4% in Dec and expectations of -9.0%.

Over the Weekend Feb 18 and Feb 19

AP: The People's Bank of China cut the reserve requirement ratio (RRR) by 50 bps effective Feb 24.

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

US/NORTH AMERICA

S&P 500 (1/11/2011 to 17/2/2012)

Source: Bloomberg

Economic Outlook

Fundamentals suggest subdued inflation

Federal Reserve (Fed) officials expect inflation to run a little below target over the medium term, a view Citi analysts share. The modest gains in retail sales in recent months illustrate that low inflation near term is likely to be key to keeping the consumer on track. Headline and core inflation measures appear to be converging toward lower rates now that temporary distortions are unwinding.

Fed officials have set 2% as a longer-run goal for personal consumption expenditure (PCE) inflation, a rate that historically would be consistent on average with roughly 2¼% for the consumer price index (CPI). But over the medium term, policymakers anticipate PCE inflation running in a 1½% to 2% range that could help buffer real incomes and provide an element of flexibility for policymakers to remain focused on accommodation. Citi analysts expect the PCE price measure to rise at a subdued 1¾% in 2012. Improving labour markets have yet to stir wage growth, and productivity and costs in early recovery should allow historically wide profit margins to buffer price pressures. Both consumer inflation expectations and business pricing plans remain stable, limiting threats to price stability in both directions.

The Week Ahead

22/2

- **Existing home sales** likely edged up in January (4.65 Million) after a sharp increase totalling about 10% in the fourth quarter.

23/2

- **Initial jobless claims** for the week ending 18 February probably fell to the lowest level since January 2008 (340K), pushing the four-week moving average down to a new four-year low (355K).

24/2

- The **Reuters/Michigan sentiment** index likely edged higher in the second half of February (73.0) after the surprise fall in the early part of the month.
- **New home sales** were likely little changed in January (305K) despite a large jump in housing starts. Hidden below the rise in headline starts was a small decline in single family units.

Equities

A respite in the rally seems due

	Last week's close	Last week's return	YTD return
S&P 500	1361.23	+1.38%	+8.24%
DJIA	12949.87	+1.16%	+5.99%
Nasdaq	2951.78	+1.65%	+13.31%

The equity market's gains since the beginning of the year have left many in the investment community unsure of trends rather than bolstering confidence, as trading patterns have shifted from defensively positioned portfolios in the latter part of 2011 to more aggressive names currently. The rally, in Citi analysts' opinion, appears to have been driven by an easing of tail risks as programs like the long-term refinancing operations (LTRO) appear to have brought some much needed stability to Europe, and as better US economic data and news out of China have reduced hard-landing fears.

Although Citi analysts continue to expect US equity markets to head higher this year, they believe some rally respite appears plausible. Three factors suggest some consolidation of recent gains is likely 1) intra-stock correlation has slipped to levels seen when markets have topped out in the past few years; 2) the Citi Economic Surprise Index is extended and may begin to edge lower; and 3) Citi's primary sentiment model has moved up sharply and is approaching complacency readings..

Bonds

Preference for high grade corporates and emerging market debt

	Feb 17 2011	Feb 10 2011	Feb 3 2011
2-yr Try:	0.290%	0.274%	0.230%
5-yr Try:	0.860%	0.820%	0.768%
10-yr Try:	2.002%	1.986%	1.922%

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	**USDJPY**	**USDCAD**
1.25	77	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.

Source: CIRA

EUROPE

STOXX (1/11/2011 to 17/2/2012)

Source: Bloomberg

Economic Outlook

Ireland – Tough times ahead

So far, Ireland has been the "poster child" for Euro Area policies of fiscal austerity and supply-side flexibility. Even with the sluggish economy, the 2011 fiscal deficit probably undershot the Troika targets slightly, dropping just below 10% of GDP. But Ireland's economy faces intense headwinds. GDP fell sharply in 3Q11 and partial data suggest the economy was roughly flat or perhaps shrank slightly in 4Q11. Either way, renewed recession appears likely in 2012 with a slow recovery in 2013-15. Domestic demand may continue to be capped by household and banking sector deleveraging, plus fiscal retrenchment. Moreover, despite gains in export cost-competitiveness, exports are likely to be capped by weakness in Ireland's key export markets. As a result, the tough fiscal plans are unlikely to deliver the planned trajectory for the general government gross debt/GDP ratio to level off below 120% of GDP in 2013 and then fall. Citi analysts doubt the government will be able to regain normal market access in 2012-13. Hence, they expect the Troika and government to accept that Ireland may need a longer period of fiscal austerity than current plans envisage – and some form of continued bailout or financial support beyond 2013.

The Week Ahead

20/2
- **France: Business confidence** likely rose slightly in February, to 92, reflecting a reduction in market tensions and a small rebound in demand dynamics.

21/2
- **Euro Area:** After the surprisingly small increase in January, Citi analysts expect **consumer confidence** to edge down again in February (-21.0).

22/2
- **Euro Area:** Available data from some member countries suggest a modest rebound in **industrial new orders** in December (+0.5% MoM, -2.9% YoY).

23/2
- **Germany:** Citi analysts expect a small decline in the **ifo business climate** to 108 in February after three months of consecutive gains.

24/2
- **Germany:** The statistical office is likely to confirm the flash estimate of **4Q11 GDP** (-0.2% QoQ).

Equities

Synchronised liquidity from central banks may lend support to equities

	Last week's close	Last week's return	YTD return
STOXX	248.76	+1.76%	+10.18%
FTSE 100	5905.07	+0.90%	+5.97%
DAX	6848.03	+2.32%	+16.10%

After a poor 2011, Citi analysts expect a positive year for European equities in 2012 as the combination of troughing global economic expectations and synchronised liquidity from central banks support equity prices. Investor interest in European equities however remains muted as de-leveraging, the sovereign debt crisis and Euro Area recession present ongoing headwinds.

The relative valuation case for equities versus bonds remains clear in Europe as dividend yields have been higher than bond yields for most of the last three years. Moreover, large liquidity injections from the European Central Bank (ECB) recently and commitments to keep rates low from developed market central banks imply that there is more money around to support equity markets. But considering that retail investors tend to follow market movements, it may take time for confidence to return. In the meantime, Citi analysts believe the likely buyers of European equities in 2012 are likely to be absolute return investors (including sovereign wealth funds and income investors) and corporates, courtesy of de-equitisation.

Bonds

Favour long-dated UK gilts

	Feb 17 2011	Feb 10 2011	Feb 3 2011
2-yr Try:	0.253%	0.239%	0.204%
5-yr Try:	0.910%	0.869%	0.874%
10-yr Try:	1.925%	1.907%	1.933%

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 hording 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.

Source: CIRA

JAPAN

Nikkei 225 (1/11/2011 to 17/2/2012)

Source: Bloomberg

Economic Outlook

GDP growth projected to pick up around mid-year

Real GDP decreased -0.6% QoQ and -2.3% QoQ annualized in 4Q11, the first negative growth in two quarters. The main drag was an export decline. The result undershot the market median projection (-0.3% QoQ and -1.4% QoQ annualized) by a wide margin. However, the gap was caused by a 0.3 percentage-point negative contribution (to the QoQ growth rate) from private inventory investment, which has positive implication to the growth rate in the current quarter.

Going forward, Citi analysts expect a GDP turnaround to positive QoQ growth in 1Q12. Exports are likely to decrease at a slower pace than in 4Q11 as the negative impact from Thailand's flooding wanes. Consumer spending is also likely to remain resilient on the back of resumed subsidies for energy efficient cars and an additional day in February. But at the same time, continued weakness of exports to Europe and China may limit GDP growth in 1Q12. Citi analysts expect the Japanese economy to emerge from the current stagnation around mid-year when an overseas economic rebound centering on China is likely to put Japan's exports back on track for moderate growth.

The Week Ahead

20/2

- Citi analysts expect the c**ustoms clearance trade balance** to show a deficit of -¥1.2480tn before seasonal adjustment (January 2011 -¥479.4bn) and a deficit of -¥670.3bn (January 2011 -¥567.6bn) after adjustment in January. The latter would be the tenth consecutive monthly deficit.

21/2

- Based on December industrial production (+3.8% MoM) and the tertiary industry activity index for the month (+1.4% MoM), Citi analysts estimate that the **all industry activity index** rose 1.6% MoM in December (November -1.1% MoM).

Equities

Three reasons to be positive on Japanese equities

	Prior week close	Last week's return	YTD return
Nikkei	9384.17	+4.88%	+10.98%
Topix	810.45	+4.03%	+11.23%

Three factors back Citi analysts' positive view on Japanese equities. First, they think Japan return on equity (RoE) has more room to rise than in other regions. Second, the recovery in Japanese equity prices has lagged the recovery in the fundamentals. Third, the economy is expected to pick up steam in 2012 as Japan recovers from the earthquake and they believe yen strength, which has weighed on valuations, is likely in its final stages. In their view, Japanese equities have more room to rise than those in other regions.

Between March and May 2009, after the post-Lehman lows, sectors that looked undervalued in terms of degree of divergence from their five-year price-to-book ratio (PBR) average tended to outperform. Looking at sector performance between November 24, 2011, and February 3, 2012, Marine Transporters and Securities outperformed markedly. Citi analysts believe these sectors remain undervalued and expect their outperformance to continue. In momentum terms, they think Transportation Equipment and Wholesalers are attractively positioned, as they tend to benefit from a recovery in the US economy and monetary easing.

Bonds

Modest rise in long-term rates expected

	Feb 17 2011	Feb 10 2011	Feb 3 2011
2-yr Try:	0.109%	0.125%	0.135%
5-yr Try:	0.303%	0.343%	0.325%
10-yr Try:	0.949%	0.979%	0.949%

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**	**AUDJPY**
77	96	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.

Source: CIRA

ASIA PACIFIC EX JAPAN

MSCI Asia ex Japan (1/11/2011 to 17/2/2012)

Source: Bloomberg

Economic Outlook

China: RRR cut confirms policy easing to counter economic weakness

The People's Bank of China (PBOC) cut the reserve requirement ratio (RRR) by 50 bps. The cut, which will become effective on February 24, will bring RRR for large banks to 20.5% and for smaller banks to 18.5%. This will unlock about RMB390bn of deposits and increase banks' excess reserves that can be used to extend loans. This second cut since last December suggests that the policy priority in the near term is to prevent a hard landing of the economy in a year of leadership transition. With growing signs of weakness since late last year and inflation expected to be under control, Citi analysts expect the National People's Congress, to be convened on March 5, to be more vocal about policy easing, including by passing a budget featuring proactive fiscal policy.

Citi analysts believe FX inflow this year could be less than half the level of last year, and at least another three RRR cuts may be needed to achieve the PBOC broad money growth target of 14%. However, excessively high RRR is not the only impediment for money growth. The loan-to-deposit ratio (LDR) ceiling has constrained small banks' ability to make more loans. The anticipated new capital requirement may have also led banks to slow expansion of their balance sheets. Citi analysts expect regulators to loosen the LDR requirement (for example, by excluding some loans in the calculation of LDR) and to make the new capital regulation less stringent by adjusting the risk weights for assets and broadening qualified capital.

The Week Ahead

20/2

- **Hong Kong:** January **CPI** likely edged up (5.9% YoY) on higher food and services prices due to Chinese New Year, plus the electricity tariff hike.
- **Thailand:** Supply shock likely led to **4Q11 real GDP** contracting by -6.7% YoY.

21/2

- **Hong Kong:** The **unemployment rate** likely stayed at 3.3% s.a. in Nov'11-Jan'12, reflecting a tight labour market where seasonal hiring offset some of the effects of hiring conservatism due to worries of a global slowdown.

22/2

- **Taiwan:** The final reading for **4Q11 GDP** likely improved slightly to 2.0% YoY from 1.9% YoY.

23/2

- **Singapore: CPI inflation** likely moderated to 4.2% YoY in January on base effects. On a MoM SA basis, inflation probably moderated to 0.2%.

24/2

- **Singapore: Industrial production** likely slowed on base effects in January as well as fewer working days due to the Chinese New Year to 0.6% YoY. On a sequential basis, IP likely rose 3.3% MoM SA.

Equities

Earnings season: Weak start, cause for concern?

	Last week's close	Last week's return	YTD return
MSCI Asia ex Japan	445.85	+1.38%	+13.51%

The corporate earnings season in Asia is now in full swing and thus far, we have seen more earnings disappointments than positive surprises – 31% of market cap have reported, 61% have missed expectations. The worst misses were in Korea, Taiwan and Thailand. By sector, Utilities, Industrials and Materials fared worse. The least negative surprises were in Hong Kong and Telecoms. Earnings misses were predominately due to top lines rather than margins.

While the results so far are not exactly encouraging, Asian equities continue to look cheap versus earnings expectations. With the exception of Utilities, price-to-earnings (PE) of all other sectors are still well below their last ten earnings seasons' average. The implied earnings growth rate of 2% versus the IBES 12-month forecasts of 11% also suggests there is a cushion for earnings per share disappointment. Moreover, compared to their pre-global financial crisis peak, earnings are now 27% higher, PE is 39% lower and the market is 22% below.

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.

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.

Source: CIRA

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	12949.87	12967.92	10404.49	+1.16%	+5.99%	+5.99%
S&P 500	1361.23	1370.58	1074.77	+1.38%	+8.24%	+8.24%
Nasdaq	2951.78	2962.78	2298.89	+1.65%	+13.31%	+13.31%
EUROPE						
DJ Euro STOXX	248.76	297.73	194.63	+1.76%	+10.18%	+11.82%
FTSE 100	5905.07	6105.77	4791.01	+0.90%	+5.97%	+8.19%
DAX	6848.03	7600.41	4965.80	+2.32%	+16.10%	+17.83%
JAPAN						
Nikkei 225	9384.17	10862.43	8135.79	+4.88%	+10.98%	+7.58%
TOPIX	810.45	975.69	703.88	+4.03%	+11.23%	+7.82%
ASIA						
MSCI Asia ex Japan	445.85	512.12	353.80	+1.38%	+13.51%	+13.51%
Hong Kong Hang Seng	21491.62	24468.64	16170.35	+3.41%	+16.58%	+16.77%
Shanghai Composite Index	2357.18	3067.46	2132.63	+0.22%	+7.17%	+7.20%
Taiwan Weighted Index	7894.36	9099.75	6609.11	+0.41%	+11.63%	+14.35%
Korea KOSPI	2023.47	2231.47	1644.11	+1.49%	+10.83%	+13.80%
Mumbai Sensex	18289.35	19811.14	15135.86	+3.05%	+18.34%	+27.34%
Singapore Straits Times Index	3000.59	3227.28	2521.95	+1.37%	+13.39%	+16.71%
Kuala Lumpur Composite	1557.15	1597.08	1310.53	-0.29%	+1.73%	+6.10%
Thai Stock Exchange	1129.93	1148.28	843.69	+1.53%	+10.20%	+12.96%
Jakarta Composite Index	3976.54	4195.72	3217.95	+1.64%	+4.04%	+5.35%
Philippines Stock Exchange Index	4880.71	4966.94	3705.18	+2.03%	+11.64%	+14.97%
Australia All Ordinaries	4273.26	5069.50	3829.40	-1.14%	+3.95%	+8.56%
EMEA						
Russia MICEX Index	1568.54	1865.25	1242.75	+2.84%	+11.86%	+20.02%
South Africa JSE All Shares Index	34082.78	34460.57	28305.41	+0.56%	+6.56%	+11.04%
Turkey ISE National 100 Index	61111.30	70335.62	48600.16	+3.00%	+19.20%	+28.04%
LATIN AMERICA						
Mexico Bolsa Index	37914.70	38413.19	31561.51	-0.61%	+2.26%	+11.27%
Brazil Bovespa Index	66203.50	70107.71	47793.49	+3.45%	+16.65%	+27.01%
COMMODITIES						
Gold	1723.38	1921.15	1381.22	+0.08%	+10.21%	+10.21%
Oil	103.24	114.83	74.95	+4.63%	+4.46%	+4.46%
FIXED INCOME						
Citigroup World Government Bond Index	611.65	613.79	570.29	-0.01%	+0.40%	+0.40%

Source: Bloomberg (As at February 17, 2012)

CURRENCY FORECASTS

Currency		20-Feb-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	1.250	1.24	1.22	1.20	1.22	1.25	1.27	1.3	1.3
Japanese yen	USDJPY	79	77	77	76	76	76	77	77	78	79
British Pound	GBPUSD	1.59	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	1.08	1.01	0.99	0.96	0.93	0.92	0.92	0.91	0.90	0.90
New Zealand	NZDUSD	0.84	0.78	0.76	0.73	0.70	0.69	0.67	0.65	0.63	0.63
Canadian Dollar	USDCAD	0.99	1.03	1.04	1.05	1.07	1.04	1.01	0.98	0.95	0.95
Dollar Index	DXY	79.15	82.23	83.07	83.93	84.82	83.66	82.18	80.73	79.32	79.02
G10 Crosses											
Japanese yen	EURJPY	105	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	0.83	0.82	0.81	0.81	0.80	0.80	0.80	0.79	0.79	0.79
Swedish Krona	EURSEK	8.84	8.90	8.93	8.96	9.00	8.95	8.88	8.82	8.76	8.75
Norwegian Krone	EURNOK	7.50	7.79	7.80	7.80	7.80	7.76	7.71	7.66	7.61	7.60
Norwegian Krone	NOKSEK	1.18	1.14	1.14	1.15	1.15	1.15	1.15	1.15	1.15	1.15
Australian Dollar	AUDNZD	1.28	1.30	1.30	1.32	1.33	1.35	1.37	1.40	1.43	1.43
Australian Dollar	AUDJPY	85.4	78.0	75.8	73.4	71.0	70.6	70.5	70.3	70.2	70.5
EM Asia											
Chinese Renminbi	USDCNY	6.30	6.30	6.27	6.24	6.20	6.15	6.10	6.05	6.01	6.01
Hong Kong	USDHKD	7.75	7.78	7.77	7.77	7.76	7.76	7.75	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	9040	9000	9300	9200	9100	9050	9000	8950	8900	8900
Indian Rupee	USDINR	49.3	52.0	52.0	51.5	51.0	50.0	49.5	49.0	49.0	49.0
Korean Won	USDKRW	1123	1150	1145	1120	1100	1080	1070	1040	1020	1020
Malaysian Ringgit	USDMYR	3.02	3.18	3.12	3.11	3.08	3.04	3.01	2.96	2.94	2.94
Philippine Peso	USDPHP	42.6	44.5	43.8	43.3	43.0	42.9	42.7	42.5	42.3	42.3
Singapore Dollar	USDSGD	1.25	1.30	1.28	1.27	1.25	1.23	1.22	1.20	1.19	1.19
Thai Baht	USDTHB	30.8	31.8	31.6	31.4	31.2	31.0	30.8	30.5	30.3	30.3
Taiwan Dollar	USDTWD	29.5	30.2	30.5	30.2	29.8	29.8	29.5	29.5	29.2	29.2
EM Europe											
Czech Koruna	EURCZK	24.95	26.11	25.86	25.46	25.06	24.79	24.54	24.29	24.04	23.87
Hungarian Forint	EURHUF	288	310	306	301	296	293	290	288	285	285
Polish Zloty	EURPLN	4.18	4.53	4.48	4.40	4.31	4.22	4.12	4.02	3.91	3.90
Israeli Shekel	USDILS	3.73	3.89	3.93	3.96	4.00	3.98	3.95	3.93	3.90	3.86
Russian Ruble	USDRUB	29.8	32.3	32.8	33.3	33.9	33.6	33.1	32.7	32.2	32.0
Russian Ruble	Basket	34.1	36.0	36.3	36.6	37.0	36.9	36.8	36.6	36.5	36.5
Turkish Lira	USDTRY	1.75	1.85	1.88	1.91	1.95	1.92	1.88	1.84	1.81	1.79
South African Rand	USDZAR	7.69	8.36	8.50	8.62	8.73	8.76	8.77	8.79	8.80	8.88
EM Latam											
Brazilian Real	USDBRL	1.71	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	12.7	13.6	13.5	13.5	13.4	13.1	12.8	12.5	12.2	12.3
Colombian Peso	USDCOP	1779	1849	1850	1850	1850	1850	1850	1850	1850	1857

Source: CIRA, Bloomberg (As at February 20, 2012; Forecasts as of January 19, 2012)

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