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See the Disclosure Appendix for the Analyst Certification and Other Disclosures.

ECONOMIC & MARKET ANALYSIS

May 23, 2008

Economics/Strategy

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Global Economic Outlook and Strategy

- **Very near-term prospects for the U.S. economy have improved, but market expectations for Fed tightening later this year appear unwarranted.**
- **The U.K. economy continues to slow in the face of financial drag, while there are new signs of slowing in Europe.**
- **The sharp rise in oil prices poses new challenges for the global economy.**
- **Evidence of a broader moderation in global growth is emerging. High oil prices should reinforce this trend.**
- **Weaker global growth should help to limit further gains in commodity prices and global inflationary pressures.**

Figure 1. Currency and Interest Rate Forecasts (End of Period, Unless Specified), as of May 23, 2008

	May 23, 2008	2Q 08 Forecast	3Q 08 Forecast	4Q 08 Forecast	1Q 09 Forecast
United States: Federal Funds	2.00%	2.00%	2.00%	2.00%	2.00%
10-Yr. Treasuries (Period Average)	3.87	3.70	3.80	3.90	4.10
Euro Area: US$/€	1.57	1.58	1.60	1.58	1.55
Euro Repo Rate	4.00	4.00	4.00	3.75	3.50
10-Yr. Bunds (Period Average)	4.25	4.15	4.15	4.30	4.35
Japan: Yen/US$	103	103	100	98	100
Call Money	0.50%	0.50%	0.50	0.50	0.50%
10-Yr. JGB (Period Average)	1.74	1.50	1.50%	1.55%	1.55%

Source: Citi.

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Figure 2. Key Policy Events, 24 May–30 Jun 08

Date	Country	Event
May 26	Malaysia	Central Bank of Malaysia *Monetary Policy Statement 3/08*
May 26	Israel	Bank of Israel Interest Rate Announcement
May 26	Hungary	Central Bank of Hungary Monetary Policy Meeting
May 27	Slovakia	National Bank of Slovakia Monetary Policy Report
May 27-28	Poland	National Bank of Poland Monetary Policy Council Meeting
May 28	Norway	Norges Bank Interest Rate Announcement
Jun 2-3	European Union	Finance Ministers' Mtgs: Eurogroup (Jun 2) and ECOFIN (Jun 3)
Jun 3	Australia	Reserve Bank of Australia (RBA) Board Meeting
Jun 3-4	Brazil	Central Bank of Brazil Monetary Policy Meeting
Jun 4	General	OECD releases preliminary edition of OECD *Economic Outlook No. 83*
Jun 4-5	United Kingdom	Bank of England Monetary Policy Committee Meeting
Jun 5	New Zealand	Reserve Bank of New Zealand *Monetary Policy Statement* and Official Cash Rate (OCR) Announcement
Jun 5	Euro Area	ECB Monetary Policy Meeting and Press Conference
Jun 7-8	G-8	G-8 Energy Ministers' Meeting, Aomori, Japan
Jun 10	Canada	Bank of Canada Interest Rate Announcement
Jun 10	Chile	Central Bank of Chile Monetary Policy Meeting
Jun 11-12	South Africa	South African Reserve Bank Monetary Policy Meeting
Jun 12	Korea	Bank of Korea Monetary Policy Meeting
Jun 12	Ireland	Referendum on EU Treaty
Jun 12	Peru	Central Reserve Bank of Peru Monetary Policy Announcement
Jun 12-13	Japan	Bank of Japan Monetary Policy Meeting
Jun 13-14	G-8	G-8 Finance Ministers' Meeting, Osaka, Japan
Jun 16	Turkey	Central Bank of the Republic of Turkey Monetary Policy Meeting
Jun 19	Switzerland	SNB Monetary Policy Assessment & Press Conference
Jun 19-20	European Union	European Council (Brussels)
Jun 20	Mexico	Bank of Mexico Monetary Policy Announcement
Jun 23	Israel	Bank of Israel Interest Rate Announcement
Jun 23	Hungary	Central Bank of Hungary Monetary Policy Meeting
Jun 24	Slovakia	National Bank of Slovakia Monetary Policy Report
Jun 24-25	Poland	National Bank of Poland Monetary Policy Council Meeting
Jun 24-25	United States	FOMC Meeting
Jun 25	Romania	National Bank of Romania Board Meeting
Jun 25	Norway	Norges Bank Interest Rate Announcement and *Monetary Policy Report*
Jun 26	Czech Republic	Czech National Bank Monetary Policy Meeting
Jun 26-27	G-8	G-8 Foreign Ministers' Meeting, Kyoto, Japan
Jun 28-30	Switzerland	Bank for International Settlements Annual General Meeting (Basel)
Jun 30/Jul 1	European Union	EU Presidency passes from Slovenia to France

Figure 3. Forecast Highlights and Changes from Last Month

G3	
• United States	• The economy is poised to bounce with the aid of massive tax rebates. But with the Fed now on hold, a sustained recovery will require more supportive financial conditions, a bottoming in housing, and easing price pressures.
• Euro Area	• We expect the ECB to eventually lower official rates moderately, once inflation falls convincingly. With rising oil prices, this prospect now seems a bit further away than before, and we have moved our first rate cut to the fourth quarter (from the third) and reduced the total amount of easing over the next year to 50 basis points.
• Japan	• The BoJ will likely leave policy rates unchanged through 2009, as uncertainties surrounding the economic outlook dominate amid a U.S. slowdown, yen appreciation, and surging energy prices.
Others	
• United Kingdom	• With rising inflation and already high inflation expectations, we have scaled back the amount of further MPC easing we expect this year to just 25 basis points (to 4.75%). We still expect that soft growth will allow the MPC to cut rates to 4.0% during 2009.
• Canada	• Benign inflation and lingering downside risks likely will prompt an additional 25 basis points of easing in June.
• Australia	• The RBA is on hold with the economy slowing, but near-term risks to inflation and interest rates remain to the upside.
• China	• The earthquake will probably not end the authorities' efforts to fight inflation, but investment could accelerate as reconstruction begins.
• Other Emerging Markets	• Inflation pressures have intensified, driving greater divergence in policy responses across countries.

Overview: New Challenges to Global Growth

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Given the problems in the U.S. and European economies, we have been expecting a more broad-based slowdown of the global economy for some time. Incoming data are beginning to suggest that such a deceleration may be developing. In this context the continued rapid rise in oil prices is both surprising and a challenge. In the past two months oil prices, both in the spot market and out the futures curves, have increased over 30 percent. There is no question that the strong growth of the global economy since 2001 is one of the main reasons behind high oil prices. But the near-term dynamics in global growth would not, by itself, seem to justify the sharp increases in oil prices in recent weeks.

Near-term prospects for the U.S. economy have become clouded by the surge in oil prices even as other financial conditions have steadied. The fiscal stimulus is being paid out more quickly than had been previously expected. The near-term benefits from the fiscal stimulus should pass within a few months. Strains on bank balance sheets remain quite acute suggesting that the credit crunch will be a material drag on growth going forward, while the pace of housing adjustment is glacial.

Meanwhile recent data have tended to confirm the ongoing slowing of the U.K. economy. Forward-looking data fro the euro area suggest that the combination of financial stress, a strong euro and weakness is likely to constrain growth going forward. From the perspective of near-term oil demand, then recent developments in oil prices look perplexing.

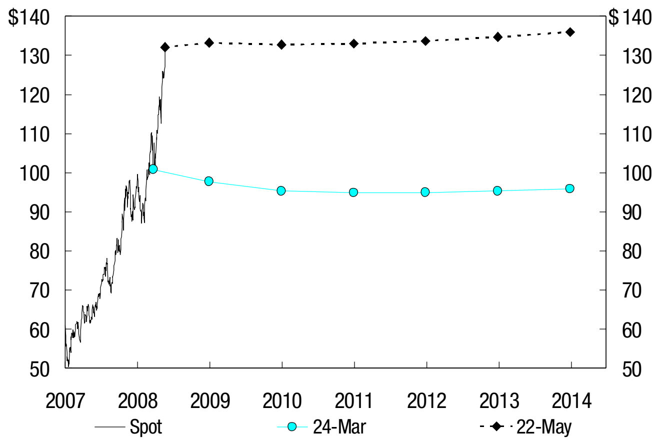
In recent years the global economy has been remarkably resilient in the face of sharply rising energy prices. To some extent this reflected the fact that energy is a less important part of economic activity than it has been in the past. But this benign performance also reflected two other important trends. First, up until last summer financial conditions were generally supportive for growth. Housing booms in many countries were one channel for this effect. In the United States in the first part of this decade, the beneficial effect of the housing boom on both construction and wealth tended to offset the drag on consumer buying power from higher energy prices. Second, until relatively recently there has been little evidence that higher energy prices were generating significant upward pressure on inflation expectations and other prices.

The most recent surge in energy prices comes at a time when the global economy is facing significant headwinds from financial stress and inflationary pressures around the globe appear to be on the cusp of becoming a more serious problem. In this context the negative consequences of higher energy prices for the global economy, both directly and through tighter policy, probably pose a greater threat than they have in the past. But weaker global growth should help to contain further increases in commodity prices. Consequently the recent acceleration of oil prices should be self-limiting.

Oil Prices

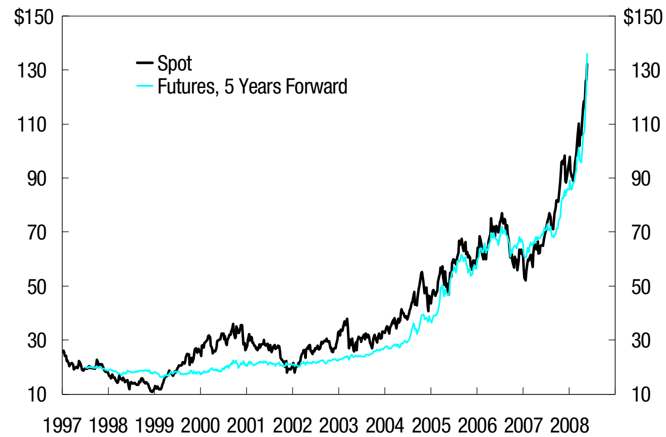
In recent months oil prices have risen sharply. In the past two months spot oil prices are up about 30%, while futures rates five years forward are up 40% (see Figure 4). It is difficult to reconcile price increases of this magnitude with recent developments affecting either the physical supply or demand for oil. In recent weeks Saudi officials have reiterated their reluctance to increase production in the near-term but this was

Figure 4. Global— Oil Prices, Spot and Futures (U.S.$ per Barrel) Jan 07-31 Dec 13



Source: Bloomberg.

Figure 5. Global — Oil Prices, Spot and Futures, 5-year Forward (U.S.$ per Barrel) 1997-22 May 08



Sources: Haver and Bloomberg.

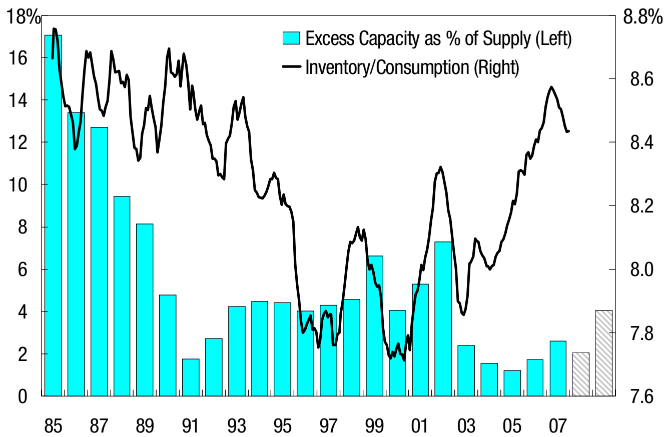
widely expected. The outlook for the U.S. economy has improved somewhat since the Bear Stearns rescue. But over the same period evidence that the rest of the global economy is slowing has started to emerge. Moreover oil prices rose rapidly right through the period of financial turmoil that began in August. Political instability in the Middle East remains a potential threat to oil supplies and so current prices probably reflect some demand for insurance against these risks. But again, it is hard to argue that changes in this area can justify the magnitude of price increases that we have experienced in recent weeks.

It is particularly noteworthy that long-dated futures prices have increased as much or more than spot prices. In the past, futures prices tended to be more stable than spot prices. This probably reflected the fact that over relatively long periods of time demand and supply tend to respond to fluctuations in spot prices (see Figure 5). For example, over the period 1997 to mid-2004 five-year ahead futures prices tended to move 1% in a given week for every 10% change in spot prices. Since mid 2005 five-year ahead futures prices have tended to move 5% for a 10% change in spot prices.

In the near term there are significant obstacles to increasing supply. There is limited excess capacity in the world today so expanding production requires increasing capacity and that takes time (see Figure 6). High rates of investment in the sector have raised the marginal cost of new investment. Moreover, most of the countries where it is relatively easy, from a technical perspective, to increase capacity over time are problematic. Either there are significant geopolitical risks -- in places such as Iraq and Nigeria — and/or host governments are not anxious to encourage a rapid expansion of production that could help to drive down prices. Non-OPEC production has been increasing in the past couple of years, but OPEC production has actually declined.

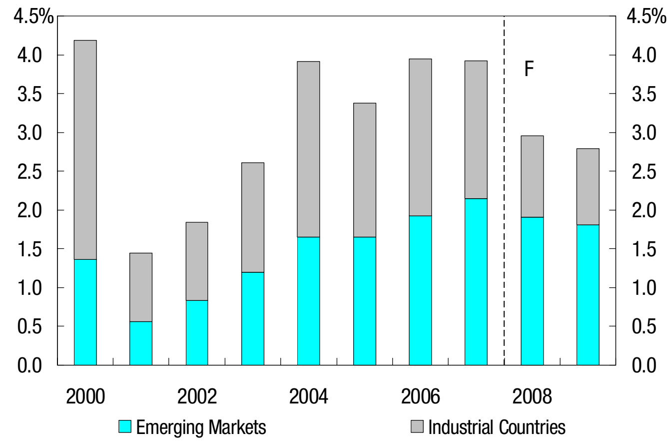
If current prices are sustained, the economic incentive to find alternatives is substantial. Over time this should provide substitutes for oil. Thus, in spite of the immediate obstacles to expanding supply, with prices at historically high levels, it seems likely that, over the long term, supply will grow more rapidly than demand.

Figure 6. Global — OPEC Excess Capacity (Percent of global supply) and the Ratio of Inventories to Consumption in OECD (Percent) 1985-09F



Sources: EIA, OECD, and Citi.

Figure 7. Global — Contributions to Global Growth from Industrial and Emerging Economies (Percent) 2000-09F



Sources: Haver and Citi.

In this context the fact that long-dated futures have gone up more than spot prices in recent weeks is at least consistent with the argument that financial demand for commodities is contributing materially to the run up in prices. In recent years the participation of investors, as opposed to producers and consumers, in commodity markets has increased sharply. This reflects growing interest in commodities as an "asset class" among institutional money managers. These shifts generate transitional demands for commodities that are large relative to the size of these markets. For example, “non-commercial” investors accounted for 66% of open interest in the main NYMEX natural gas contract so far this year. This compares to just 18% in 2000.

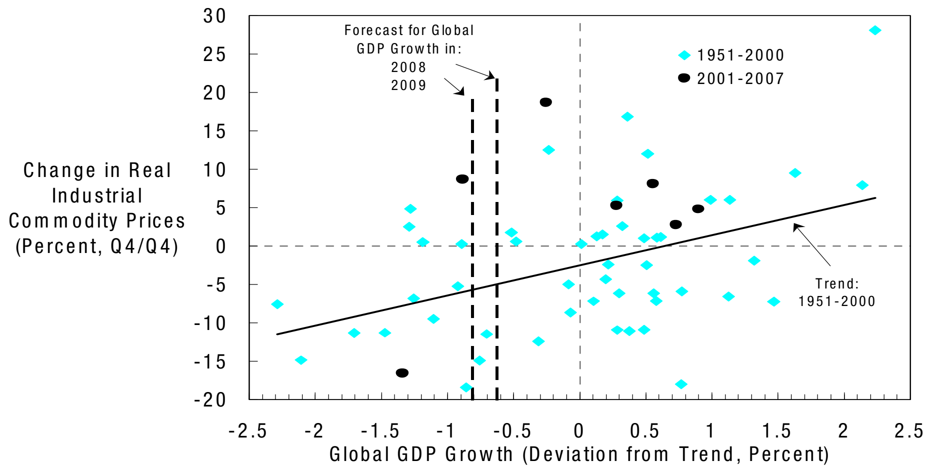
There is little evidence that financial demand for commodities is waning. But at the end of the day, the commodities that get produced either have to be consumed or held in inventory. Consequently, the near-term dynamics of production and consumption play an important role in anchoring prices.

Looking ahead, we expect the global economy to slow largely in response to housing and financial problems in major industrial countries (see Figure 7). We are also expecting emerging economies to slow as the slowdown in key industrial countries moderates the growth of their exports.

The recent upward momentum in oil prices will amplify these trends. High oil prices will be a drag on the real spending of consumers in most countries. Moreover the surge in prices may adversely affect business confidence. Some businesses that are directly affected by higher energy prices – such as airlines and automobile manufactures – are already retrenching.

In addition, the impact of higher oil prices on inflation and inflation expectations will likely constrain monetary policy in industrial countries that are underperforming. This will tend to exacerbate downside risks to growth in those countries. Higher oil prices will intensify inflationary pressures in emerging economies as well. Many emerging economies have been slow to tighten policies in response to higher inflationary pressures in part because they have been concerned about spillovers from the slowdowns in major industrial countries. Persistently higher oil prices will tend to worsen the set of choices available to policy makers in oil-importing emerging

Figure 8. Global — Deviations of Global Growth from Trend and Changes in Real Industrial Commodity Prices (Percent) 1951-2007



Sources: FIBER, BLS, Maddison (2003), IMF and Citi calculations.

economies. While clearly a financial boon to oil exporting countries, it isn't clear that that higher oil prices will have any material impact on growth in these economies any time soon as overheating is already a significant problem.

Of course a decline in global growth should, in turn, help to moderate upward pressures on commodity prices, including those for oil. Figure 8 shows the relationship between global growth and commodity prices. When the global economy underperforms relative to trend, industrial commodity prices tend to fall. In this sense, the run up in oil prices is likely to be self-limiting.

Is the Global Economy Slowing?

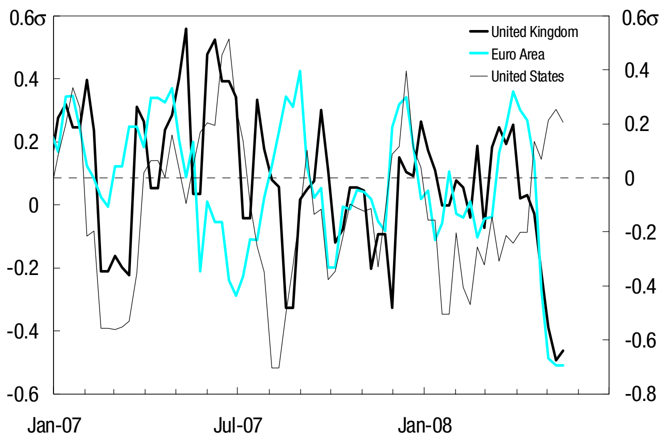
The U.S. economy has been underperforming for some time and we do not expect a return to trend like growth until well into next year. But much of the rest of the global economy has been relatively resilient. In recent weeks, however, some significant new signs have emerged of slowing outside of the U.S.

Figure 9 shows "Economic Surprises" for the U.S., the U.K. and the euro area.[1] In recent weeks incoming data for the U.K. has tended to confirm that weakness in housing is intensifying and spreading to other sectors. Housing turnover, prices and starts are all falling sharply, consumer confidence has plunged to recession levels, and retail sales volumes have fallen for two months in a row. There are early signs of broader weakness as well. Overall GDP growth in the first quarter in the U.K. was just 0.4%, below trend and the softest since 2005, with an outright decline in business investment. Manufacturing orders are falling, unemployment has risen for three months in a row, and surveys point to further weakness ahead. The economy is likely to slow close to recession in coming quarters.

In the euro area, real GDP expanded at a surprisingly strong annual rate of 2.9% (0.7% not annualized) in the first quarter, but we believe the upward surprise reflected the boost to construction from a mild winter. This has started to fade in March-April. Most

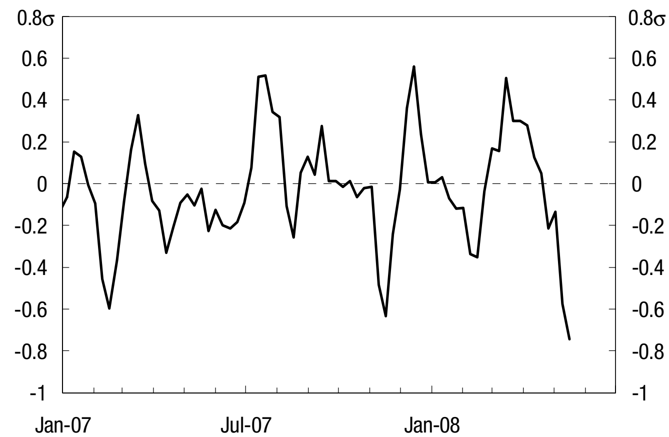
[1] For each region the difference between the actual data release and the market consensus, calculated for 8-12 monthly indicators, is divided by the standard deviation of the errors for each series.

Figure 9. Euro Area, United Kingdom and the United States – Average Economic Data "Surprises" (Standard Deviations) Jan 07-May 08



Note: For each region the difference between the actual data release and the market consensus, calculated for 8-12 monthly indicators is divided by the standard deviation of the errors for each series. Source: Bloomberg and Citi.

Figure 10. Emerging Economies – Average "Surprises" in Industrial Production (Standard Deviations) Jan 07-May 08



Note: The difference between the actual data on industrial production and the market consensus is divided by the standard deviation of the errors for each series. Countries covered are: China, Korea, Malaysia, Singapore, Taiwan, Poland, South Africa Turkey, Brazil and Mexico. Source: Bloomberg and Citi.

monthly indicators suggest that the underlying pace of expansion remained sub-par. Looking ahead, business surveys point to a renewed, gradual weakening of activity this quarter. This, together with the correction in construction, should lead to virtual stagnation of output. Exports continue to slow but remain on an upward path due to demand from emerging markets. Domestic demand is slowing aside from statistical quirks, as housing demand falls and consumer spending remains sluggish.

In Japan, real GDP also grew at a surprisingly strong annual rate of 3.3% in the first quarter (after 2.6% in 4Q 2007) mostly thanks to solid growth in exports (19.5% annualized in real terms). Exports to the United States remained virtually flat but those to the euro area, Asia and commodity producing countries continued to grow strongly. Notably, exports to commodity producers (Middle East, Russia, Latin America, etc.) have been providing important offsets to sluggishness in exports to the United States, as global commodity prices continued to surge. However, corporate profits started to slow sharply last fall. Surging raw material prices (especially crude oil prices) narrowed corporate profit margins in the past two quarters and business investment has slowed. Meanwhile, private consumption remains surprisingly stable given higher food and energy prices and falling consumer sentiment.

Economic conditions have been mixed in the commodity-leveraged economies. Growth in Australia and New Zealand appears to have slowed sharply since the end of last year due partly to global financial spillovers that have raised the cost of mortgages, dented share prices and weakened business and consumer confidence. However, it is unclear how much of the slowdown in Australia will be sustained given the recent rebound in share prices and recent large rises in commodity prices which could boost real incomes in 2008 by 2.75%. In contrast to Australia and New Zealand, economic activity in Norway continues to expand at rapid pace. Inflation in all these economies remains uncomfortably high.

Growth in the emerging world generally remains robust, but again some recent data point to a deceleration. Figure 10 shows "surprises" in industrial production data in key emerging economies. In recent months, this measure generally has been disappointing, suggesting that even the emerging economies are starting to decelerate.

In Asia, the pace of industrial production eased in China, India, Korea, Malaysia, Taiwan and Vietnam, while growth of exports moderated in China, Malaysia, the Philippines, Singapore, Taiwan and Vietnam. So far the slowdown has been limited in most economies, but the trend may be worrisome for the authorities, especially as the U.S. economy continues to weaken. In China, for instance, export growth lowered to 21.8% in April from 30.6% in March, while production growth edged down to 15.7% from 17.8%.

Meanwhile, inflation rates continued to climb higher, especially in China, India, Indonesia, Korea, Malaysia, Philippines, Thailand and Vietnam. In particular, China's headline CPI rebounded to 8.5% in April from 8.3% in March, though non-food CPI stayed unchanged, while Vietnam's CPI escalated further to 21.4% from 19.4%. With the exception of Vietnam, inflation is still mainly driven by supply-side factors, especially food and energy costs.

Central banks' responses have been different across Asia. Authorities in China and India repeatedly hiked the reserve requirements. The central bank in Taiwan continued to hike the policy rate slowly. Authorities in Vietnam finally undertook a decisive step, by raising short-term interest rates to 12% from 8.5% previously. The central bank in Indonesia also increased the policy rate by 25bps and may add an additional 100bps given the expected 20%-30% fuel price adjustment in June. Meanwhile, authorities in Korea and the Philippines continued to resist tightening monetary policies, despite the above-target inflation in these economies.

Signs of a slowdown are evident across most of CEEMEA to a greater or lesser degree. Year-on-year growth in retail sales, for example, turned negative in South Africa and the Czech Republic in the first quarter, and indicators of demand in a number of other countries show evidence of softening. In Turkey, consumer confidence has plummeted, while import growth in Romania has slowed significantly in recent months.

To some extent, these signs of slowdown should be welcome. Countries with large external financing requirements face risks to financial stability at a time when the sustainability of cross-border capital flows remains uncertain. In that sense a slowdown in domestic spending growth will help the external adjustment process that's needed to bring these countries' need for external financing into line with a lower volume of capital flows.

So far, the U.S. slowdown has had only a modest impact on Latin American economic performance. Growth remains generally strong, although somewhat slower than in 2007. Growth is still quite robust in Brazil, Peru, and Venezuela, and also in Argentina according to official statistics. Meanwhile, the data point to a modest slowdown in Chile, Colombia and Mexico. The rise in oil and other commodities over the past month represents an additional boost to incomes for most of the region, and should continue to support strong domestic demand.

Figure 11. Selected Countries — Economic Forecast Overview, 2006-2008F

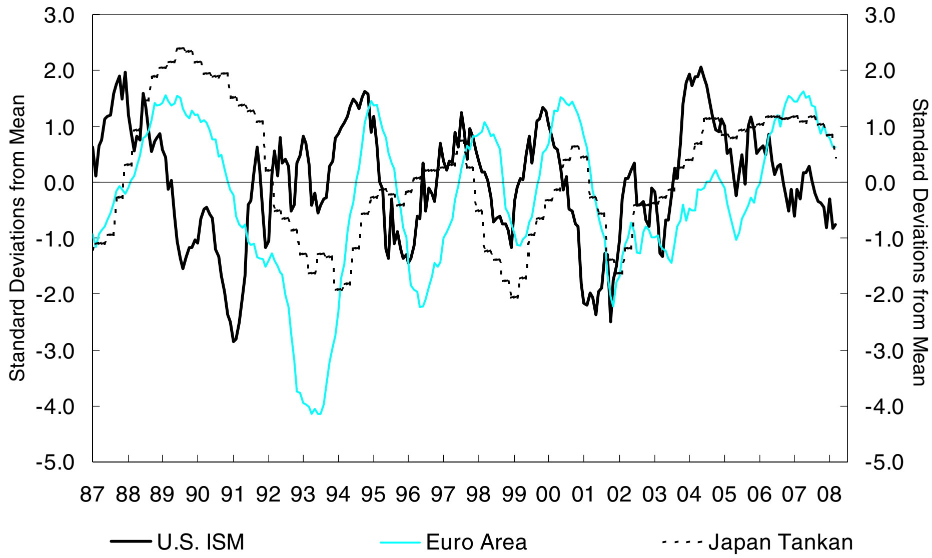
	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2007	2008F	2009F	2007	2008F	2009F	2007	2008F	2009F	2007	2008F	2009F
Global	3.9%	3.0%	2.8%	3.1%	4.7%	3.5%	0.3%	-0.1%	-0.4%	-0.4%	-1.3%	-1.5%
Based on PPP weights	*4.9*	*3.9*	*3.7*	*3.6*	*5.5*	*4.1*	*1.1*	*0.5*	*0.0*	*-0.5*	*-1.4*	*-1.6*
Industrial Countries	2.5%	1.5%	1.4%	2.1%	3.2%	2.2%	-1.4%	-1.6%	-1.5%	-0.8%	-1.9%	-2.0%
United States	2.2%	1.3%	1.4%	2.9%	4.2%	2.8%	-5.3%	-5.8%	-5.7%	-1.1%	-3.5%	-3.4%
Japan	2.1	1.7	1.4	0.0	1.2	0.8	4.8	4.1	4.2	-2.8	-3.0	-3.6
Euro Area	2.6	1.5	1.2	2.1	3.0	1.8	0.2	0.0	-0.1	-0.6	-1.0	-1.1
Canada	2.7	1.1	2.5	2.1	2.1	2.2	0.9	1.0	0.5	0.2	0.1	0.1
Australia	3.9	2.2	3.4	2.3	4.1	3.1	-6.2	-4.1	-4.3	1.6	1.5	1.8
Germany	2.6%	1.8%	0.8%	2.1%	2.4%	1.8%	7.6%	6.2%	4.0%	0.0%	-0.6%	-1.2%
France	1.9	1.4	0.9	1.5	2.9	1.7	-1.5	-2.0	-2.2	-2.7	-3.2	-3.4
Italy	1.6	0.5	1.2	2.2	2.5	1.7	-2.0	-2.5	-2.7	-2.3	-3.0	-3.1
Spain	3.8	2.0	1.9	2.7	3.7	2.7	-9.6	-8.9	-7.5	2.2	0.5	-0.5
United Kingdom	3.0	1.7	0.8	2.3	3.2	2.9	-4.2	-3.7	-2.4	-2.8	-3.0	-3.5
Emerging Markets	7.4%	6.3%	6.0%	5.3%	8.0%	6.5%	4.5%	4.0%	2.6%	0.7%	0.2%	-0.3%
China	11.9	9.8	9.7	4.8	7.4	5.7	10.8	8.3	6.4	-1.8	-2.0	-1.5
India	8.7	7.7	8.3	4.5	6.0	4.5	-1.2	-2.8	-2.0	-6.0	-5.8	-5.2
Korea	5.0	4.2	4.0	2.5	4.0	3.0	0.6	-1.6	-0.8	3.8	1.5	0.7
Poland	6.5	5.0	4.3	2.5	4.2	3.1	-3.8	-4.8	-4.8	-1.5	-2.1	-2.3
Russia	8.1	6.8	6.6	9.0	14.8	13.2	6.1	7.1	4.2	5.5	8.1	7.8
South Africa	5.1	3.2	3.7	7.2	9.0	5.1	-7.3	-6.7	-6.8	0.8	0.3	0.2
Turkey	4.5	3.6	3.7	8.8	10.0	7.8	-5.8	-6.8	-5.9	-1.9	-2.4	-3.1
Brazil	5.4	4.6	3.5	3.6	5.2	4.7	0.1	-1.8	-2.0	-2.3	-1.6	-1.6
Mexico	3.2	2.6	3.0	4.0	4.3	3.6	-0.7	-1.3	-2.3	0.0	0.0	0.0

Notes: F Citi forecast. In the United Kingdom, inflation is now measured by the CPI. In Norway, forecasts are for mainland GDP. Aggregates are weighted averages of country data, based on weights that reflect nominal GDP expressed in U.S. dollars.

Sources: National sources and Citi.

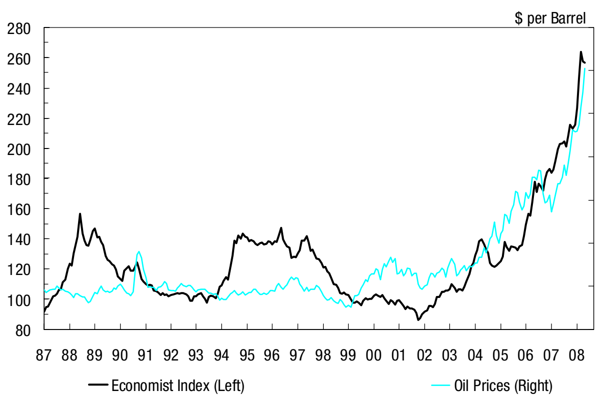
Key Economic Indicators

Figure 12. Euro Area, Japan, and the United States — Business Activity Survey Measures, 1987-May 2008



Note: The figure shows business activity survey indexes in the euro area, Japan and the United States, measured in units of standard deviations from the ten-year mean.
Sources: Bank of Japan, EU Commission and the U.S. Institute for Supply Management.

Figure 13. Commodity Prices, 1987-May 2008



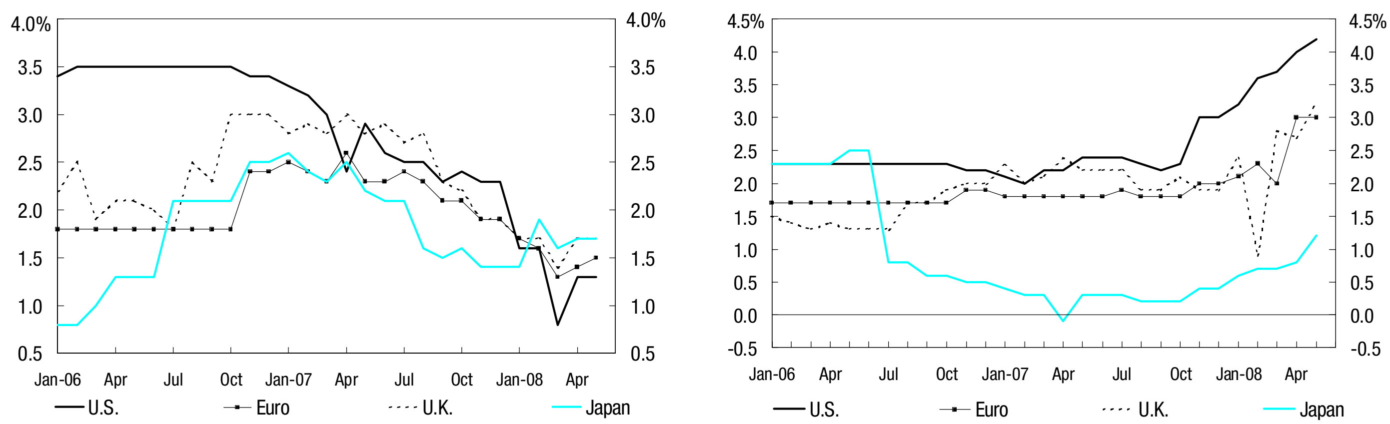
Note: Brent crude. Sources: *The Economist* and OECD.

Figure 14. Selected Countries — Global Industrial Production (Year-to-Year Percent Change), 2007-09F

	2007	2008F	20009F
World	4.2%	2.9%	3.7%
United States	1.9	0.3	1.6
Japan	2.9	0.6	1.5
Euro Area	2.5	1.9	1.6
United Kingdom	0.3	0.8	0.8
Canada	0.1	-3.5	-0.3
China	18.5	16.8	16.5
India	8.1	7.5	8.7
Korea	6.8	6.8	6.0
Brazil	6.0	5.6	4.6

Note: "World" includes 22 countries based on industrial production weights.
Sources: National sources and Citi.

Figure 15. Euro Area, Japan, United Kingdom, and United States — Forecasts for 2008 GDP (Left) and 2008 Inflation (Right), 2006-May 2008



Source: Citi.

Figure 16. Short Rates (End of Period), as of May 23, 2008

	Current	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09
United States	**2.00 %**	**2.00 %**	**2.00 %**	**2.00 %**	**2.00 %**	**2.00 %**
Japan	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Euro Area	**4.00**	**4.00**	**4.00**	**3.75**	**3.50**	**3.50**
Canada	3.00 %	2.75 %	2.75 %	2.75 %	2.75 %	2.75 %
Australia	7.25	7.25	7.25	7.25	7.25	7.25
New Zealand	8.25	8.25	8.00	7.50	7.25	7.00
Denmark	4.35 %	4.35 %	4.35 %	4.10 %	3.85 %	3.85 %
Norway	5.50	5.50	5.75	5.75	5.75	5.50
Sweden	4.25	4.25	4.25	4.00	3.75	3.50
Switzerland	2.75	2.75	2.75	2.75	2.75	2.75
United Kingdom	5.00	5.00	5.00	4.75	4.50	4.25
China	7.47 %	7.47 %	7.47 %	7.47 %	7.47 %	7.47 %

Note: The rates shown are overnight rates, except for Denmark, where it is the central bank's seven-day repo rate, Switzerland, where it is the Swiss-Frank's three-month LIBOR, and China, where it is the one-year commercial bank lending rate. Source: Citi.

Figure 17. 10-Year Yield Forecasts (Period Average), as of May 23, 2008

	Current	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09
United States	**3.87 %**	**3.70 %**	**3.80 %**	**3.90 %**	**4.10 %**	**4.20 %**
Japan	**1.74**	**1.50**	**1.50**	**1.55**	**1.55**	**1.60**
Euro Area	**4.25**	**4.15**	**4.15**	**4.30**	**4.35**	**4.45**
Canada	3.66 %	3.70 %	3.90 %	4.00 %	4.20 %	4.30 %
Australia	6.51	6.30	6.30	6.40	6.35	6.45
New Zealand	6.61	6.30	6.30	6.40	6.35	6.45
Denmark	4.50 %	4.35 %	4.30 %	4.40 %	4.45 %	4.50 %
Norway	4.76	4.75	4.85	5.05	5.15	5.20
Sweden	4.23	4.20	4.25	4.40	4.45	4.60
Switzerland	3.06	3.45	3.55	3.80	3.85	3.95
United Kingdom	4.83	4.69	4.69	4.84	4.89	4.99

Notes: Bond yields measured on local market basis (semi-annual for the United States, United Kingdom, Canada, Australia, and New Zealand; annual for the rest). The 10-year yield for the euro area is the Bund yield. Source: Citi.

Figure 18. 10-Year Yield Spreads (Period Average), as of May 23, 2008

	Spread vs. US$						Spread vs. Germany					
	Current	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09	Current	2Q 08	3Q 08	4Q 08	1Q 09	2Q 09
United States	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**-34** bp	**-42** bp	**-31** bp	**-36 bp**	**-21 bp**	**-21 bp**
Japan	**-217 bp**	**-223 bp**	**-234 bp**	**-239 bp**	**-259 bp**	**-264 bp**	**-251**	**-265**	**-265**	**-275**	**-280**	**-285**
Euro Area	**34**	**42**	**31**	**36**	**21**	**21**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	-22	0	10	10	10	10	-56	-42	-21	-26	-11	-10
Australia	264	260	250	250	225	225	237	225	225	220	210	210
New Zealand	274	260	250	250	225	225	247	225	225	220	210	210
France	53	62	51	51	31	31	19	20	20	15	10	10
Italy	78	92	76	81	66	56	44	50	45	45	45	35
Spain	57	77	66	71	51	51	23	35	35	35	30	30
Netherlands	53	62	46	51	31	31	19	20	15	15	10	10
Belgium	65	77	66	66	51	46	31	35	35	30	30	25
Denmark	59	62	46	46	31	26	25	20	15	10	10	5
Norway	85	102	101	111	101	96	51	60	70	75	80	75
Sweden	32	47	41	46	31	36	-2	5	10	10	10	15
Switzerland	-85	-28	-29	-14	-29	-29	-119	-70	-60	-50	-50	-50
United Kingdom	96	99	89	94	79	79	64	60	60	60	60	60

NA Not applicable. Note: Spreads calculated on annual basis (except those of the United Kingdom, Canada, Australia and New Zealand over the United States).
Source: Citi.

Figure 19. Foreign Exchange Forecasts (End of Period), as of May 23, 2008

	vs USD						vs EUR					
	Current	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Current	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
United States	NA	NA	NA	NA	NA	NA	1.57	1.58	1.60	1.58	1.55	1.50
Japan	103	103	100	98	100	103	163	163	160	155	155	155
Euro Area	1.57	1.58	1.60	1.58	1.55	1.50	NA	NA	NA	NA	NA	NA
Canada	0.99	1.01	1.02	1.03	1.03	1.04	1.55	1.60	1.63	1.63	1.60	1.56
Australia	0.96	0.98	0.98	0.95	0.92	0.92	1.64	1.61	1.63	1.66	1.68	1.63
New Zealand	0.79	0.77	0.76	0.75	0.72	0.72	2.00	2.05	2.11	2.11	2.15	2.08
Norway	5.02	4.91	4.78	4.84	4.97	5.20	7.90	7.75	7.65	7.65	7.70	7.80
Sweden	5.91	5.89	5.78	5.89	6.00	6.13	9.30	9.30	9.25	9.30	9.30	9.20
Switzerland	1.03	1.05	1.07	1.04	1.03	1.07	1.62	1.66	1.71	1.64	1.60	1.60
United Kingdom	1.98	1.94	1.92	1.90	1.93	1.87	0.79	0.82	0.83	0.83	0.80	0.80
China	6.94	6.85	6.75	6.70	6.63	6.55	10.9	10.8	10.8	10.6	10.3	9.8
India	42.7	40.9	40.5	40.0	40.0	39.5	67.3	64.6	64.8	63.2	62.0	59.3
Korea	1046	1020	1020	1020	1010	1000	1646	1612	1632	1612	1566	1500
Poland	2.16	2.25	2.16	2.12	2.15	2.19	3.40	3.56	3.45	3.35	3.33	3.28
Russia	23.6	23.3	22.9	23.3	23.3	23.3	37.1	36.8	36.6	36.8	36.1	35.0
South Africa	7.66	7.55	7.75	8.00	8.10	8.20	12.05	11.93	12.40	12.64	12.56	12.30
Turkey	1.25	1.31	1.33	1.35	1.41	1.45	1.96	2.07	2.13	2.13	2.19	2.18
Brazil	1.65	1.60	1.60	1.60	1.65	1.65	2.60	2.53	2.56	2.53	2.56	2.48
Mexico	10.4	10.6	10.7	10.7	10.9	10.9	16.3	16.7	17.1	16.9	16.9	16.4

Source: *Citi.*

Figure 20. Foreign Exchange Forecasts (End of Period), as of May 23, 2008

	vs JPY					
	Current	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
United States	103	103	100	98	100	103
Japan	NA	NA	NA	NA	NA	NA
Euro Area	163	163	160	155	155	155
Canada	105	102	98	95	97	99
Australia	99	101	98	93	92	95
New Zealand	81.5	79.3	76.0	73.5	72.0	74.2
Norway	20.6	21.0	20.9	20.2	20.1	19.8
Sweden	17.5	17.5	17.3	16.6	16.7	16.8
Switzerland	101	98	94	94	97	97
United Kingdom	205	199	192	186	193	192
China	15	15	15	15	15	16
India	2.42	2.52	2.47	2.45	2.50	2.61
Korea	10.10	9.90	10.20	10.41	10.10	9.71
Poland	47.9	45.7	46.4	46.2	46.5	47.1
Russia	4.4	4.4	4.4	4.2	4.3	4.4
South Africa	13.5	13.6	12.9	12.3	12.3	12.6
Turkey	83.1	78.6	75.2	72.6	70.9	71.0
Brazil	62.6	64.4	62.5	61.3	60.6	62.4
Mexico	10.0	9.8	9.3	9.2	9.2	9.4

Source: *Citi.*

Currency Outlook

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The USD stabilized over May, with the Fed signaling a protracted pause in interest rates and some signs of stability in financial markets. With the U.S. economy still set to grow below trend over the remainder of 2008, however, we doubt that the time has yet come for a substantial rally in the USD.

The euro also stabilized (both versus the USD and in trade-weighted terms) in May, following a sharp rise in the previous three months. Central bank verbal intervention (including the G7 warnings against excessive currency volatility) helped to arrest the euro's appreciation. While a USD rebound is unlikely until the U.S. economy provides signs of a convincing recovery, increasing signs of weakening in the euro area (notwithstanding the stronger-than-expected GDP print in 1Q) suggest that a persistent euro appreciation also is unlikely.

The Japanese yen will likely appreciate against the USD moderately during the rest of 2008, perhaps through 100. The Japanese economy appears less affected by the money and credit market strains than other major industrial economies, though we expect it to grow below trend and risk reductions strengthen the yen. In 2009, a shift of Japanese households' portfolios into foreign-currency-denominated assets will probably generate a moderate turnaround in the USD, as confidence in the U.S. economy improves and risk reduction ends.

The fundamentals for the GBP continue to look challenging. Economic growth may slow sharply in the year ahead, but inflation pressures, including from higher energy and food prices, imply a much delayed easing from the MPC. The delay in easing, coupled with the credit crunch, the housing collapse and weak real incomes, will exacerbate downside risks to the economy and, likely, the GBP.

Asian currencies generally softened during the past month, as the USD regained some strength. The Korea won and Indian rupee, however, saw the brunt of the selling, due to their more vulnerable external account positions. The annualized appreciation of CNY expected by the NDF market, fell from 11.6% a month ago to 6.0% currently. We think the market has now become somewhat too cautious as we continue to expect CNY to rise by 8% against the USD in 2008. We still like THB, MYR, SGD and NTD dollar over the PHP, INR or KRW.

The AUD remains one of our favored currencies. Although the Australian economy looks to be slowing, the RBA retains a tightening bias, with inflation well above the target band. However, the real boost to the AUD, which has recently traded at 24-year highs to the USD, has come from further sharp gains in Australian-specific commodity prices, especially those for iron ore and coal. We expect Australia's terms of trade now to rise by a further 15% in the year ahead.

The CAD currently remains near parity with the USD; nonetheless, we continue to anticipate some depreciation later this year. Anemic Canadian growth, somewhat better prospects for the U.S, and a smaller policy-rate gap between the two nations, likely will prompt a retreat to about C$1.03 by yearend.

Higher Norwegian yields, combined with a high oil price will likely continue to support the NOK going forward. Following the surprise rate hike in February, we expect the Swedish Riksbank to keep rates steady near-term. The next move is likely to be a cut — to offset the negative effects from the credit crisis and weakening U.S.

and global economy, likely around the turn of the year. With the ECB cutting more, the interest rate spread remains in SEK favor.

Two broad themes are currently identifiable in CEEMEA's currency markets. The first is a very strong recovery in the exchange rates of countries perceived to have large external financing requirements (ZAR, TRL, HUF.) However, these currencies will remain sensitive to indicators of global risk appetite in the future.

The second theme is the greater willingness of countries with inflation problems to use nominal exchange rate appreciation as a disinflationary tool. The Ukrainian hryvnia has appreciated by over 4% since the start of April, as the National Bank struggles to deal with a tripling of the inflation rate in the past 12 months to 30%. The Egyptian authorities face similar pressures -- inflation has risen to over 16% from 7% in December 2007 -- but has adopted a more cautious approach to exchange rate appreciation than the Ukraine.

Latin American currencies have remained resilient to Fed signals pointing to the end of the easing cycle. As in Australia, soaring commodity prices are supporting local currencies, though the pace of appreciation has slowed relative to the first months of the year. Our FX forecasts against the USD also stand firmly inside the forwards in Brazil, while they stand broadly in line with forwards in Mexico and Colombia over a one-year horizon. While we see the USD/MXN fairly priced, we had rolled our short CAD/MXN recommendation into another 3-month forward as we still believe that real exchange rates look misaligned for these Nafta trading partners. In contrast, we hold bearish views on the Argentine and Chilean pesos, despite short-term appreciation pressure: the former because we observe government inaction against rising inflation; the latter because we believe the economy is particularly vulnerable to a global slowdown and internal imbalances.

Figure 21. Currency Recommendations, as of May 23, 2008

	Current	3-Month Forecast	Annual Return vs FWD	Implied Vol.	12-Month Forecast	Annual Return vs FWD	Implied Vol.
United States	NA	NA	NA	NA	NA	NA	NA
Japan	103	101	6.9	11.6	102	-0.3	10.7
Euro Area	1.57	1.59	6.3	9.7	1.52	-1.7	9.9
Canada	0.99	1.02	-11.3	10.3	1.04	-4.6	10.4
Australia	0.96	0.98	12.7	11.4	0.92	0.5	11.6
New Zealand	0.79	0.77	-5.8	13.1	0.72	-3.3	13.6
Norway	5.02	4.83	18.9	12.4	5.10	1.8	12.7
Sweden	5.91	5.82	8.0	11.0	6.08	-0.7	11.5
Switzerland	1.03	1.07	-13.2	11.5	1.05	-2.5	10.6
United Kingdom	1.98	1.93	-8.5	8.4	1.89	-1.8	8.6
China	6.94	6.79	2.9	4.3	6.58	-2.0	6.3
India	42.7	40.7	22.4	8.1	39.7	9.0	7.9
Korea	1046	1020	10.9	11.1	1004	4.1	8.7
Poland	2.16	2.20	-2.9	11.8	2.17	2.7	11.4
Russia	23.6	23.1	10.3	8.0	23.3	3.6	8.6
South Africa	7.66	7.67	9.0	18.5	8.16	3.1	18.5
Turkey	1.25	1.32	-9.5	15.2	1.43	0.0	16.5
Brazil	1.65	1.60	22.4	12.7	1.65	9.5	12.8
Mexico	10.4	10.6	-4.8	6.6	10.9	-0.2	7.4

Source: *Citi.*

Global Equity Strategy

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World inflation has been on an upward trend since the middle of last year and has moved above 5% for the first time in almost ten years. The last serious bouts of rising inflation (the early 1970s, late 1970s, late 1980s, and late 1990s) have resulted in poor equity returns.

The Inflation Threat

While our economists do not believe current levels of inflation will be sustained, the uncertainties over the inflation outlook remain considerable. There are a number of potential assets available to investors to hedge against rising inflation. These assets generally compensate investors during times of inflation via offsetting increases in the distribution and/or increases in capital values. They include equities, index-linked bonds, cash, property, infrastructure, and commodities. We compare the first five of these assets in Figure 22.

Our comparison suggests that equities stack up as one of the more attractive inflation hedges. Equities are a liquid asset class with some useful inflation-hedging characteristics. Equities have grown dividends at an average annual rate of 8%, which has been higher than inflation over the last ten years. This has been higher than the distribution growth for other inflation hedges. Although dividend yields look low against some other asset classes, they are high by historical standards.

In addition, equities are less sensitive to a broader financial deleveraging. Parts of the equity market were pumped up with leverage (most notably financials), but most of it was not. We think property and infrastructure have been among the biggest beneficiaries of leverage. Both assets were leveraged up by their owners and, in many cases, the owners were also leveraged. These asset classes may suffer as leverage unwinds.

Finally, equities are among the most practical of the inflation hedges — it is an asset class that is inexpensive to trade. As such, equities rate highly as a possible inflation hedge.

Where should investors position themselves within the equity market if inflation continues to rise? We suggest four strategies:

Figure 22. Comparison of Potential Inflation Hedges

Assets	How Is Inflation Hedged	Distribution Driver	Actual Distribution Growth (%)*	Current Nominal Yield (%)	Current Yield vs. History	Liquidity
Equities	Dividends should rise with nominal GDP over the long term.	Nominal GDP	8	2.7	2.5 st. dev. above average	High
Index-linked bonds (TIPS)	Coupon and capital value is adjusted for inflation.	CPI	2	4.3	In line with average	Low
Cash deposits	Interest rates tend to rise when inflation does. However they fall when inflation falls.	Central bank, Real growth, Inflation expectations	N/A	3.4	Around average	High
Property	Rents tend to rise with inflation. Some regions have "upward only rent reviews."	Nominal GDP	3	5-7	1 st. dev. below average	Low
Infrastructure	Returns tend to rise with inflation or more. Often legislation guarantees inflation beating returns.	Nominal GDP	5-10	5-7	Below average	Low

* These are the compound annual growth rates (CAGR) of distributions for the ten years through 2007. For equities, this is the CAGR for the MSCI ACWI DPS in USD. For index-linked bonds, we provide the average rate of developed world inflation. Property is the CAGR of U.K. commercial property rents. Infrastructure is the average EBITDA growth rate.
Sources: MSCI, Datastream, Company Data, IPD, and Citi.

First, buy companies that are operating in the areas responsible for the current bout of inflation. This means investors will want to look at companies in the energy and materials sectors. In addition, investors will tilt toward emerging markets given the higher weighting of these sectors relative to developed markets.

Second, follow the investment flows of the beneficiaries of rising prices. Some of the biggest beneficiaries in the current bout of rising inflation have been the governments in commodity exporting countries. We find they have recycled their windfall profits into buying equities around the world. Relative to market cap, the biggest acquisitions have been in emerging markets. This is another reason for investors to look at this area.

Third, look for companies operating in industries with inelastic demand. These companies will find it easier to push through price increases and are well represented in the consumer staples sector. A survey of our sector analysts shows that food manufacturers, and beverage, tobacco, and food retail companies have had less trouble passing through price increases to the final consumer.

Fourth, buy regulated industries. This is another group of companies that should find it easier to pass through price increases and includes infrastructure companies and utilities. As already mentioned, one risk with companies in this area may be leverage. Valuations for infrastructure and utilities have benefited as buyers financed by easy credit bid up stock prices. Companies added leverage on their own balance sheets to boost returns or deter predators. But the share price impact of the withdrawal of easy money may negate any positive impact from these stocks' inflation hedging credentials.

Figure 23. Inflation Strategies for Equity Investors

Strategy	Sector/Region	Comment
1. Buy the causes	Energy, materials	Higher commodity prices positive for revenues
	Emerging markets	Resources make up a bigger share of EM market cap
2. Follow the money	Emerging markets	Commodity exporters recycling cash into EM equities
3. Inelastic demand	Consumer staples	Find it easier to pass through costs
4. Regulated industries	Utilities, infrastructure	"Inflation plus" clauses often written into long-term agreements with regulators

Source: Citi.

Figure 24. Long-Term Forecasts (Calendar Average), as of May 23, 2008

	GDP					CPI					Short-Term Interest Rates				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
United States	**1.3%**	**1.4%**	**2.7%**	**2.7%**	**2.7%**	**4.2%**	**2.8%**	**2.0%**	**2.0%**	**2.0%**	**2.3%**	**2.3%**	**3.0%**	**4.0%**	**4.0%**
Japan	**1.7**	**1.4**	**1.5**	**2.0**	**1.2**	**1.2**	**0.8**	**0.3**	**0.6**	**2.3**	**0.5**	**0.5**	**0.8**	**1.3**	**1.9**
Euro Area	**1.5**	**1.2**	**2.0**	**2.0**	**2.0**	**3.0**	**1.8**	**1.8**	**1.8**	**1.8**	**4.0**	**3.5**	**3.8**	**3.8**	**3.8**
Canada	1.1	2.5	3.0	3.3	3.0	2.1	2.2	2.1	2.1	2.0	2.9	2.9	3.3	3.5	3.8
Australia	2.2	3.4	3.5	3.3	3.3	4.1	3.1	2.5	2.5	2.5	7.3	7.0	6.0	5.5	5.5
New Zealand	1.5	1.9	2.5	3.0	3.0	3.3	2.8	2.5	3.0	3.0	8.0	7.0	7.0	6.5	6.5
Germany	1.8	0.8	2.1	1.7	1.7	2.4	1.8	1.6	1.5	1.5					
France	1.4	0.9	2.0	2.3	2.3	2.9	1.7	1.6	1.6	1.5					
Italy	0.5	1.2	1.2	1.3	1.3	2.5	1.7	1.8	1.8	1.8					
Spain	2.0	1.9	2.0	2.2	2.1	3.7	2.7	2.4	1.7	1.8					
Norway	4.0	3.0	2.5	2.5	2.6	3.4	2.6	2.5	2.3	2.4	5.6	5.5	5.0	4.8	4.8
Sweden	2.1	1.8	2.3	2.3	2.4	3.3	2.3	2.1	2.1	2.2	4.2	3.5	3.8	3.8	3.8
Switzerland	2.1	1.0	2.2	2.0	1.9	2.3	1.6	1.1	0.8	0.8	2.8	2.8	2.8	2.8	2.8
United Kingdom	1.7	0.8	1.7	2.4	2.5	3.2	2.9	2.6	2.1	2.1	5.0	4.3	4.0	4.6	5.0
China	9.8	9.7	10.5	10.8	10.0	7.4	5.7	4.0	3.5	4.0	7.5	7.5	7.5	7.7	7.7
India	7.7	8.3	8.6	9.5	9.5	6.0	4.5	4.5	4.5	4.5	6.6	6.5	6.5	6.5	6.5
Korea	4.2	4.0	5.0	5.0	4.8	4.0	3.0	2.5	2.5	2.5	4.8	3.6	3.5	4.8	5.3
Poland	5.0	4.3	4.9	5.8	5.5	4.2	3.1	2.4	2.5	2.7	6.3	5.5	5.5	5.5	5.5
Russia	6.8	6.6	6.6	6.5	6.6	14.8	13.2	10.3	8.6	6.5	15.0	14.0	11.5	9.5	7.5
South Africa	3.2	3.7	5.3	5.1	5.5	9.0	5.1	5.8	6.5	6.9	12.0	10.5	9.5	9.5	9.5
Turkey	3.6	3.7	5.8	6.0	6.2	10.0	7.8	6.7	5.8	5.0	18.7	16.3	14.5	12.0	10.0
Brazil	4.6	3.5	4.0	4.0	4.0	5.2	4.7	4.1	4.0	4.0	13.8	12.5	10.5	9.5	9.0
Mexico	2.6	3.0	4.0	3.8	4.3	4.3	3.6	3.2	3.1	3.1	6.8	6.3	6.5	6.5	6.5

Note: For Norway, mainland GDP.

Source: Citi forecasts.

Figure 25. Long-Term Forecasts (Calendar Average), as of May 23, 2008

	Ten-Year Yields					Exchange Rate Versus U.S. Dollar					Exchange Rate Versus Euro				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
United States	**3.75%**	**4.15%**	**4.75%**	**5.00%**	**5.00%**	**NA**	**NA**	**NA**	**NA**	**NA**	**1.56**	**1.55**	**1.50**	**1.50**	**1.50**
Japan	**1.50**	**1.60**	**1.75**	**2.25**	**1.75**	**101**	**103**	**105**	**100**	**95**	**158**	**160**	**158**	**150**	**143**
Euro Area[a]	**4.10**	**4.40**	**4.50**	**4.50**	**4.50**	**1.56**	**1.55**	**1.50**	**1.50**	**1.50**	**NA**	**NA**	**NA**	**NA**	**NA**
Canada	3.81	4.25	4.85	5.00	4.90	1.02	1.05	1.07	1.10	1.15	1.59	1.63	1.61	1.65	1.73
Australia	6.30	6.30	6.75	6.50	6.50	0.96	0.91	0.85	0.80	0.80	1.63	1.70	1.76	1.88	1.88
New Zealand	6.35	6.30	6.75	6.75	6.75	0.77	0.72	0.70	0.65	0.65	2.03	2.15	2.14	2.31	2.31
Norway	4.80	5.30	5.11	5.18	5.20	5.03	4.97	5.17	5.13	5.07	7.85	7.70	7.75	7.70	7.60
Sweden	4.21	4.63	4.73	4.73	4.73	5.98	6.00	6.07	6.00	6.00	9.33	9.30	9.10	9.00	9.00
Switzerland	3.31	3.80	3.60	3.50	3.50	1.06	1.11	1.10	1.08	1.07	1.65	1.72	1.65	1.62	1.61
United Kingdom	4.56	5.40	5.20	5.10	5.00	1.92	1.93	2.10	2.17	2.17	0.81	0.80	0.71	0.69	0.69
China[e]	4.1	4.0	4.0	4.5	5.0	6.90	6.50	5.95	5.60	5.45	10.8	10.1	8.9	8.4	8.2
India	7.9	7.5	7.5	7.5	7.5	40.5	38.5	36.0	33.0	31.0	63.2	59.7	54.0	49.5	46.5
Korea[e]	4.8	4.0	4.5	5.2	5.5	1000	1000	980	960	950	1560	1550	1470	1440	1425
Poland	5.8	5.7	5.7	5.4	5.0	2.24	2.14	2.18	2.15	2.12	3.50	3.31	3.27	3.23	3.18
Russia	6.4	6.5	6.6	6.6	6.7	23.6	23.5	23.6	23.4	22.4	36.8	36.4	35.3	35.0	33.6
South Africa	9.2	9.0	8.9	8.9	8.9	7.71	8.03	8.05	8.08	8.06	12.02	12.44	12.08	12.12	12.10
Turkey	NA	NA	NA	NA	NA	1.25	1.36	1.46	1.53	1.54	1.95	2.10	2.18	2.29	2.32
Brazil	12.8	11.4	10.0	9.5	9.0	1.66	1.60	1.70	1.80	1.90	2.59	2.48	2.55	2.70	2.85
Mexico	7.2	7.2	7.2	7.2	7.2	10.4	10.9	11.0	11.2	11.4	16.2	16.9	16.5	16.8	17.1

[a] Ten-year bund yield. Exchange rate versus U.S. dollar shows US$/€. [b] US$/A$. [c] US$/NZ$. [d] US$/£. [e] 5-year government bond yield. NA Not available.

Source: Citi forecasts.

United States

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Economic growth remains fundamentally checked despite an imminent lift from massive tax rebates, which are pouring out at a breathtaking pace. Financial markets have improved somewhat since the Bear Stearns rescue, but conditions are far from accommodating, and housing markets at the heart of the problem are deteriorating again. Worries about food and fuel costs have further undermined consumer confidence, keeping alive debate over the timetable for sustained recovery.

The combination of aggressive steps from monetary, fiscal, and regulatory authorities has relieved concerns in markets about systemic threats to economic stability. Fed officials have expressed cautious optimism about a moderate upturn later this year and have cautioned patience and attention to firms' self-healing efforts. Combined with the sharp further rise in oil prices, this sentiment suggests officials are hunkering down for a long pause and are less likely to consider any further rate cuts barring a serious relapse in markets or a significant rise in unemployment.

Economic growth is inching ahead, reflecting limited gains in consumer spending, weakness in business investment, and continued declines in housing. The quickened pace of tax rebates will shift the fiscal boost more squarely on the current quarter, but unless financial conditions improve substantially further, activity could falter before yearend. Worries about real incomes and falling home values are countering some of the boost from fiscal measures, while increased business caution in hiring and capital spending likely will keep overall activity below trend for the rest of the year.

The specter of rising energy and commodity prices has kept inflation anxieties alive, but the latest news that core inflation dipped to 2.3% is encouraging for the lack of spillover. Financial restraint on demand along with rising slack and protracted housing weakness should impose stiff competitive pressures on firm pricing. As long as inflation concerns do not spill over into behavior in this setting, we expect underlying inflation to recede somewhat, aiding investor confidence and setting the stage for a 2009 recovery.

Figure 26. United States — Economic Forecast, 2007-09F

					2007			2008			
		2007	**2008F**	**2009F**	**2Q**	**3Q**	**4Q**	**1Q**	**2QF**	**3QF**	**4QF**
GDP	SAAR				3.8%	4.9%	0.6%	0.6%	0.5%	0.4%	0.1%
	YoY	2.2%	1.3%	1.4%	1.9	2.8	2.5	2.5	1.6	0.5	0.5
Consumption	SAAR				1.4	2.8	2.3	1.0	2.6	1.1	-0.4
	YoY	2.9	1.7	1.4	2.9	3.0	2.6	1.9	2.2	1.7	1.0
Business Investment	SAAR				11.0	9.3	6.0	-2.5	-4.4	-4.1	-4.7
	YoY	4.7	0.5	-1.6	4.1	5.1	7.1	5.8	2.0	-1.3	-3.9
Housing Investment	SAAR				-11.8	-20.5	-25.2	-26.7	-13.0	-11.1	-7.0
	YoY	-17.0	-19.4	-4.9	-16.5	-16.5	-18.6	-21.2	-21.5	-19.3	-14.8
Government	SAAR				4.1	3.8	2.0	2.0	1.0	0.7	1.0
	YoY	2.0	1.9	1.0	1.9	2.7	2.3	2.9	2.2	1.4	1.2
Exports	SAAR				7.5	19.1	6.5	5.5	5.2	3.9	3.1
	YoY	8.1	7.0	4.3	7.1	10.3	8.4	9.5	8.9	5.3	4.4
Imports	SAAR				-2.7	4.4	-1.4	2.5	3.7	1.0	-2.2
	YoY	1.9	1.4	0.5	2.0	1.7	1.0	0.7	2.3	1.4	1.2
CPI	YoY	2.9	4.2	2.8	2.6	2.4	4.0	4.2	4.1	4.7	3.9
Core CPI	YoY	2.3	2.2	2.0	2.3	2.1	2.3	2.4	2.4	2.3	2.2
Unemployment Rate	%	4.6	5.4	5.9	4.5	4.7	4.8	4.9	5.3	5.6	5.8
Govt Balance (Fiscal Year)	% of GDP	-1.1	-3.5	-3.4	—	—	—	—	—	—	—
Assumed WTI Spot Price	US$	72.4	120.0	130.2	65.0	75.5	90.9	98.0	123.0	129.3	129.8
Current Account	US$bn	-739	-830	-839	-760	-710	-692	-769	-828	-868	-854
	% of GDP	-5.3	-5.8	-5.7	-5.5	-5.1	-4.9	-5.4	-5.8	-6.1	-5.9
S&P 500 Profits (US$ Per Share)	YoY	-1.7	-0.6	5.0	9.4	-5.7	-19.2	-9.7	-11.5	1.8	22.4

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

Japan

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We expect the Japanese economy to slow to a pace somewhat below the potential growth rate of the economy (around 1.7%) in coming quarters, after the strong 3.3% advance in the first quarter. The surge in energy prices, yen appreciation, and the U.S. recession will likely combine to cap economic activity. However, a recession is unlikely, given accommodative financial conditions and continued growth in exports.

Some key demand components will probably slow down in coming quarters. Export growth is likely to pull back as the negative impact of the sharp U.S. slowdown dampens activity in other regions, including emerging Asia. But exports to commodity producers could provide some offset. Business investment will likely also lose steam as corporate profits suffer from surging energy prices, yen appreciation, and the U.S. slowdown. Meanwhile, private consumption probably will continue to expand at a modest but stable pace. Residential investment will likely contribute to growth this quarter because the negative impact of the revised Building Standard Law on housing has come to an end. But recent declines in housing affordability in the wake of higher real property prices will probably start to cap housing investment this summer.

Underlying inflation will probably remain low in 2008 against the backdrop of tepid growth and declines in unit labor costs. But higher energy and food prices are likely to push year-to-year changes in core CPI (the consumer price index excluding fresh food) to around 1.5% this summer. Core inflation will probably edge down below 1% in 2009 again as positive contributions from food and energy taper off.

We expect the Bank of Japan (BoJ) to leave policy rates unchanged at 0.5% through 2009. The U.S. recession and continued instability in global financial markets, combined with below-trend domestic demand growth, will likely continue to dissuade the BoJ from raising policy rates. A rate cut is unlikely in our view, given that policymakers believe Japan's financial setting is already accommodative. We expect ten-year JGB yields to edge down gradually from here, as economic growth remains below trend.

Figure 27. Japan — Economic Forecast, 2007-09F

					2007			2008			
		2007	2008F	2009F	2Q	3Q	4Q	1QF	2QF	3QF	4QF
Real GDP	YoY	2.1%	1.7%	1.4%	1.8%	1.9%	1.4%	1.1%	2.0%	2.0%	1.7%
	SAA				-2.5	1.1	2.6	3.3	1.0	1.1	1.4
Domestic Demand	YoY	1.0	0.6	1.1	0.7	0.7	0.1	-0.3	0.7	1.1	1.0
	SAAR				-3.0	-0.7	1.5	1.2	0.7	0.9	1.1
Private Consumption	YoY	1.5	1.4	1.0	1.2	1.9	1.2	1.4	1.3	1.5	1.4
	SAAR				0.7	0.2	1.6	3.4	-0.1	1.0	1.4
Business Investment	YoY	1.9	-0.2	2.2	0.3	0.4	-0.1	-2.1	1.4	0.0	-0.2
	SAAR				-11.7	3.7	3.7	-3.4	1.7	-1.7	2.8
Housing Investment	YoY	-9.3	-4.6	2.8	-3.1	-11.5	-21.5	-16.5	-8.5	0.2	9.6
Public Investment	YoY	-2.5	-1.9	-3.0	-2.4	0.6	-1.4	-3.0	-3.5	0.6	-1.6
Exports	YoY	8.6	9.1	2.8	7.9	8.6	10.3	11.7	10.5	8.2	6.2
	SAAR				5.0	12.0	10.6	19.5	0.8	2.8	2.8
Imports	YoY	1.8	2.7	1.0	1.4	1.6	2.3	3.7	2.3	2.9	2.0
	SAAR				2.8	-0.1	4.0	8.3	-2.7	2.1	0.7
Core CPI	YoY	0.0	1.2	0.8	-0.1	-0.1	0.4	1.0	1.2	1.5	1.3
Nominal GDP	YoY	1.3	0.5	1.4	1.3	1.1	0.3	-0.4	0.5	0.7	1.1
Current Account	¥ tn	25.0	21.1	21.9	25.7	25.2	24.9	22.5	21.4	20.3	20.1
	% of GDP	4.8	4.1	4.2	5.0	4.9	4.9	4.4	4.1	3.9	3.9
Unemployment Rate	%	3.9	3.9	4.0	3.8	3.8	3.8	3.9	3.9	3.9	4.0
Industrial Production	YoY	2.8	1.4	2.4	2.3	2.6	3.3	2.3	1.8	0.7	0.5
Corporate Profits (Fiscal Year)	YoY	3.5	0.0	3.0							
General Govt. Balance (Fiscal Year)	% of GDP	-2.8	-3.0	-3.6							

F Citigroup forecast. SAAR Seasonally adjusted annual rate. YoY Year-on-year percentage change. Corporate profits are TSE-I non-financials consolidated recurring profits.
Source: Citi.

Euro Area

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GDP expanded by a strong 0.7% (not annualized) in first quarter, but we believe the upward surprise reflected the boost to construction from a mild winter. Most monthly indicators suggest that the underlying pace of expansion remained subpar. Looking ahead, business surveys point to a renewed, gradual weakening of activity in the current quarter. This, together with the correction in construction, should lead to virtual stagnation. Exports continue to slow but remain on an upward path thanks to demand from emerging markets. Domestic demand is slowing aside from statistical quirks, as housing demand falls and consumer spending remains sluggish.

Inflation settled back in April, following the surprising March increase, as the Easter effect unwound and some food prices started to cool down. With oil prices setting new highs, energy will continue to put upward pressure on headline inflation even if, as we expect, food prices fall in coming months as suggested by wholesale market quotes. Excluding food and energy, inflation slowed sharply in April, approaching a 1½% year-to-year rate. Importantly, service sector inflation shows tentative signs of easing, perhaps indicating slackening demand. Goods inflation remains low and stable, with upward pressure from commodities offset by falling manufactured import prices.

The ECB confirmed its neutral stance in May, by stating that current policy rates contribute to the goal of anchoring inflation expectations. Over the past few weeks, President Trichet warned that global inflation is rising and emphasized that central banks should avoid the mistakes of the 1970s, when they accommodated creeping inflation by effectively easing policy. He was probably trying to discourage any expectations of an early rate cut, even though the ongoing financial market crisis is "very serious." We expect the ECB to eventually lower official rates moderately, once inflation falls convincingly. With rising oil prices, this prospect now seems a bit further away than before, and we have moved our first rate cut to the fourth quarter.

Figure 28. Euro Area — Economic Forecast, 2007-09F

					2007			2008			
		2007	2008F	2009F	2Q	3Q	4Q	1QF	2QF	3QF	4QF
Real GDP	YoY	2.6%	1.5%	1.2%	2.5%	2.6%	2.2%	2.1%	1.8%	1.1%	1.0%
	SAAR				1.3	2.9	1.4	2.7	0.2	0.2	0.8
Final Domestic Demand	YoY	2.2	1.8	1.6	2.1	2.3	1.7	2.1	1.8	1.6	1.9
Private Consumption	YoY	1.5	1.5	1.6	1.6	1.7	1.1	1.5	1.3	1.3	1.9
Government Consumption	YoY	2.2	1.7	1.9	2.2	2.4	1.8	1.3	1.6	1.5	2.3
Fixed Investment	YoY	4.1	2.8	1.4	3.4	3.8	3.2	4.2	3.3	2.1	1.7
- Business Equipment	YoY	4.7	1.1	1.5	3.7	4.7	4.7	2.6	1.9	0.5	-0.6
- Construction	YoY	3.5	4.8	1.1	3.0	2.9	1.6	6.2	4.9	3.8	4.2
Stocks (contrib. to GDP)	YoY	-0.1	-0.1	0.0	-0.4	-0.2	0.2	-0.3	0.1	-0.1	-0.1
Exports	YoY	6.0	3.3	3.1	5.9	7.1	4.4	4.3	3.9	2.4	2.5
Imports	YoY	5.1	4.0	4.4	4.9	5.9	3.8	3.6	4.4	3.3	4.4
CPI	YoY	2.1	3.0	1.8	1.9	1.9	2.9	3.4	3.2	3.0	2.5
Core CPI	YoY	2.0	2.3	1.7	1.9	2.0	2.3	2.5	2.3	2.1	1.8
Unemployment Rate	%	7.4	7.2	7.4							
Current Account Balance	€bn	15	0	-10							
	% of GDP	0.2	0.0	-0.1							
General Gov't Balance	€bn	-55	-90	-100							
	% of GDP	-0.6	-1.0	-1.1							
Public Debt	% of GDP	66.3	65.1	64.2							
Gross Operating Surplus	YoY	6.4	3.0	1.5							
Oil Prices (Brent)	$/barrel	72.5	115.8	127.8	68.7	75.0	88.7	97.0	117.5	122.2	126.9

F Citi forecast. SAAR Seasonally adjusted annual rate. YoY Year-to-year growth rate. The annual forecasts for GDP and its components are consistent with the quarterly (seasonally and work-day adjusted) figures. Sources: Eurostat, national government sources, and Citi.

Germany

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After the growth acceleration in the first quarter, GDP probably will shrink in the second quarter amid a sharp downward correction of the mild-weather-related gain in construction during the first quarter. While we do not expect a recession, growth probably will remain subpar in coming quarters. The modest recovery in consumption is unlikely to offset slowing export growth. German exporters will continue to outperform their euro-area peers, but there are more signs that the stronger EUR and weaker global demand are a strong headwind for German exports. Despite recent substantial wage gains in some sectors, average wage growth is not excessive and probably will not prevent a further significant reduction in inflation in coming months. Facing the important state election in Bavaria in September and starting to position for the 2009 general election, the large parties are preparing proposals for tax cuts. As these are not accompanied by proposals for more efficient public spending, fiscal policy is likely to ease further in 2009.

France

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According to the flash estimate, GDP growth rebounded in 1Q but ongoing deteriorating economic sentiment readings suggest renewed moderation in coming quarters. While the appreciation of the EUR will dampen French exports, tighter lending conditions for French companies are likely to have a dampening impact on capital expenditures. In addition, private consumption appears fragile. We do not expect that the government will implement the targeted expenditure cuts after last year's fiscal easing. Hence the general government deficit-to-GDP ratio is likely to exceed the SGP's critical mark of 3% in 2008 for the first time since 2004. However, the government seems to be making some progress in implementing some labour market and social security system reforms.

Italy

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GDP probably declined late last year and stagnated in the first three months of this year, undermined by weak domestic demand and exports. We project GDP growth to stay well below potential this year and next, thus continuing its underperformance compared with the euro area. The early April elections resulted in a relatively comfortable majority for the centre-right coalition, which campaigned on some tax reductions and increases in pensions. Still, a full-fledged economic program is lacking. The previous Berlusconi government (2001-06) failed to reduce the budget deficit, leading ECOFIN to include Italy under the "excessive deficit" procedure. The 2008 budget — approved by the previous parliament — contains no meaningful measures, and the cyclical slowdown will boost the deficit after the 2007 correction.

Figure 29. Germany, France, and Italy — Economic Forecast, 2007-09F

		Germany			France			Italy		
		2007	2008F	2009F	2007	2008F	2009F	2007	2008F	2009F
Real GDP	YoY	2.6%	1.8%	0.8%	1.9%	1.4%	0.9%	1.6%	0.5%	1.2%
Final Domestic Demand	YoY	1.3	1.0	1.5	2.3	1.8	1.7	1.7	1.1	1.3
Private Consumption	YoY	-0.5	1.2	1.7	2.0	1.6	1.4	1.8	0.8	1.1
Fixed Investment	YoY	5.3	3.9	0.1	3.9	2.8	2.4	2.9	1.9	1.9
Exports	YoY	8.0	4.4	3.3	2.7	1.1	0.5	2.0	-2.0	1.8
Imports	YoY	5.0	4.3	4.8	4.1	2.2	2.8	2.2	0.0	2.0
CPI	YoY	2.1	2.4	1.8	1.5	2.9	1.7	2.2	2.5	1.7
Unemployment Rate	%	8.4	7.3	7.3	8.0	7.6	8.0	6.0	6.3	6.5
Current Account	€bn	184.2	153.6	100.0	-22.3	-33.4	-38.4	-30.5	-40.0	-45.0
	% of GDP	7.6	6.2	4.0	-1.5	-2.0	-2.2	-2.0	-2.5	-2.7
General Govt. Balance	€bn	0.1	-15.0	—30.1	-50.3	-61.8	-67.4	-35.7	-48	-50
	% of GDP	0.0	-0.6	-1.2	-2.7	-3.2	-3.4	-2.3	-3.0	-3.1
General Govt. Debt	% of GDP	65.0	63.9	64.0	64.2	65.8	67.5	104.5	103.5	103.5
Gross Trading Profits	YoY	6.9	0.5	2.5	2.0	1.0	1.5	5.0	1.5	2.5

F Citi forecast. YoY Year-to-year growth rate. Note: The German annual figures are derived from quarterly Bundesbank data, and thus, adjusted for working days. The forecasts for GDP and its components are calendar adjusted. Sources: Deutsche Bundesbank, Statistisches Bundesamt, and Citi.

Euro Area: Others

Spain

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GDP growth probably moderated to just 0.3% quarter over quarter last quarter, probably initiating a prolonged period of below-trend growth. Residential construction continues to slow and probably will be a major drag on GDP growth later this year and through 2009, although the impact will be partly offset by faster public spending. Higher mortgage rates, which impinge on elevated household indebtedness, also will moderate consumer spending further. In April, the government approved the announced fiscal expansionary measures, including personal income tax cuts worth about 0.6% of GDP. Together with the cyclical impact, those measures imply that the budget probably will turn into a deficit in 2009, leaving little room for further expansionary measures next year.

Benelux

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While GDP growth in Belgium softened a bit at the beginning of 2008, Dutch growth moderated sharply after the strong expansion in second-half 2007. Growth is likely to stay subpar in both countries for the reminder of 2008, as the stronger EUR is likely to cap export growth while tighter domestic financing conditions are likely to weigh on capital expenditures. In addition, rising inflation, particularly in Belgium, undermines households' purchasing power and is likely to cap consumption in both countries. So far, there are no signs of second-round effects of high inflation on wage growth. Because of existing contracts in many sectors, wage growth in Belgium did not change much in recent months. But due to the large degree of inflation indexation, wage growth probably will accelerate at the end of 2008. By contrast, tight labor market conditions propelled negotiated wage growth in the Netherlands significantly in recent months.

Finland

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Finnish economic activity is expected to slow further this year as domestic demand is capped by intensifying price pressures, fewer stimuli from the housing market, and tighter credit. A deteriorating global growth outlook will also weigh on exports (which account for nearly half of GDP). The historically tight labor market is fueling wage pressures and, in turn, inflation. Though public finances were surprisingly robust last year, the government will continue to strive for a prudent fiscal policy stance. Its aim remains to improve long-term growth prospects via enhanced job creation and tax cuts.

Figure 30. Spain, Belgium, the Netherlands, and Finland — Economic Forecast, 2007-09F

		Spain			Belgium			The Netherlands			Finland		
		2007	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F
Real GDP	YoY	3.8%	2.0%	1.9%	2.8%	1.7%	1.4%	3.5%	2.7%	1.4%	4.4%	2.2%	2.0%
Final Dom. Demand	YoY	4.4	2.4	1.4	3.0	3.0	2.3	2.9	2.5	1.6	4.0	3.3	2.1
Public Consumption	YoY	5.1	4.5	4.4	2.1	2.4	1.8	2.7	2.0	1.7	0.8	1.5	1.4
Private Consumption	YoY	3.1	1.8	1.4	2.4	1.9	1.9	2.1	2.5	1.2	3.8	3.2	2.3
Fixed Investment	YoY	6.3	2.3	2.3	5.7	6.2	4.0	5.1	3.1	2.5	7.6	5.1	2.4
Exports	YoY	5.3	3.7	3.2	3.8	3.4	2.8	6.4	4.2	3.0	4.8	2.9	2.3
Imports	YoY	6.6	4.3	3.6	4.6	4.3	3.8	5.5	4.4	3.6	4.1	3.1	2.5
CPI (Average)	YoY	2.7	3.7	2.7	1.8	3.0	1.9	1.6	2.3	2.6	2.5	3.3	2.1
Unemployment Rate	%	8.1	8.7	9.0	7.5	6.9	7.1	4.5	4.0	3.9	6.9	6.3	6.3
Current Account	% of GDP	-9.6	-8.9	-7.5	1.9	1.7	1.6	6.6	6.0	5.6	4.6	4.0	3.4
General Govt. Balance	% of GDP	2.2	0.5	-0.5	-0.2	-0.3	-0.5	0.4	0.3	0.5	5.2	4.5	4.3
General Govt. Debt	% of GDP	37.3	36.5	36.0	84.9	81.0	79.1	45.4	42.9	40.7	35.4	33.0	32.0

F Citi forecast. YoY Year-on-year growth rate. The forecasts for GDP and its components are calendar adjusted.

Source: Citi.

United Kingdom

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The twin shocks hitting the United Kingdom continue to intensify: The adverse demand shock from the credit crunch and housing collapse has combined with the adverse supply shock from the global commodity price surge, strong gains in import prices, and a sharp rise in U.K. inflation expectations. We have raised our inflation forecast, cut our growth forecast, and delayed our forecast for MPC easing.

We now expect CPI inflation to peak near 4% year to year in the third quarter, staying above the 2.0% target throughout 2009 and perhaps 2010 as well. With rising inflation and already high inflation expectations, we have scaled back the amount of further MPC easing we expect this year to just 25 basis points (to 4.75%) versus 75 basis points (to 4.25%). We still expect that soft growth will allow the MPC to cut rates to 4.0% during 2009. With delayed easing, the erosion of real incomes from high inflation, and the credit crunch, we have cut our growth forecast for 2009 from 1.6% year to year to just 0.8%, the weakest since 1992. Recession is not yet the base case, but it is a growing risk. The fiscal deficit is likely to blow out, rising well above 3% of GDP in the next couple of years.

We stress that there are uncertainties here, on both sides. On the one hand, it is conceivable (though unlikely in our view) that financial conditions will ease quickly and commodity prices will plunge, thereby boosting growth and cutting inflation sharply. On the other hand, it also is possible that commodity prices will stay strong and financial strains will remain severe or intensify, especially as the economy slows.

Figure 31. United Kingdom — Economic Forecast, 2007-09F

					2007			2008			
		2007F	2008F	2009F	2Q	3Q	4Q	1QF	2QF	3QF	4QF
Real GDP	YoY	3.0%	1.7%	0.8%	3.2%	3.0%	2.8%	2.5%	2.0%	1.3%	0.9%
	SAAR				3.3	2.5	2.5	1.8	1.0	0.0	0.8
Domestic Demand	YoY	3.7	1.8	0.4	3.4	4.0	3.7	2.8	2.6	1.0	0.7
(Incl. Inventories)	SAAR				1.9	6.3	1.8	1.4	0.8	-0.1	0.6
Consumption	YoY	3.0	1.7	0.0	2.8	3.5	2.4	2.6	2.0	1.3	1.1
	SAAR				2.7	3.1	0.6	4.1	0.1	0.3	-0.2
Investment	YoY	6.2	2.5	-0.2	6.5	5.1	4.2	3.1	4.8	1.8	0.5
	SAAR				-4.8	8.7	7.4	1.8	1.5	-3.3	2.3
Exports	YoY	-5.3	1.6	7.1	-11.7	1.6	0.6	1.5	1.4	0.7	2.9
	SAAR				2.8	5.8	-2.0	-0.2	2.0	3.2	6.5
Imports	YoY	-2.9	1.7	5.2	-10.3	4.0	3.1	2.2	3.2	-0.4	2.0
	SAAR				-2.7	18.2	-3.9	-1.3	1.2	2.6	5.4
Unemployment Rate	%	5.4	5.3	5.9	5.4	5.5	5.2	5.2	5.3	5.4	5.5
CPI Inflation	YoY	2.3	3.2	2.9	2.6	1.8	2.1	2.4	3.0	3.7	3.6
Merch. Trade	£bn	-87.6	-92.8	-86.1	-20.2	-23.2	-23.2	-23.7	-24.3	-22.5	-22.4
	% of GDP	-6.3	-6.4	-5.7	-5.8	-6.6	-6.6	-6.6	-6.7	-6.1	-6.0
Current Account	£bn	-57.5	-54.4	-37.2	-13.4	-18.8	-8.2	-17.2	-15.0	-11.2	-10.9
	% of GDP	-4.2	-3.7	-2.4	-3.9	-5.4	-2.3	-4.8	-4.1	-3.1	-2.9
PSNB	£bn FY	-33.3	-44.3	-52.6							
	% of GDP	-2.4	-3.0	-3.4							
General Govt. Balance	% of GDP	-2.8	-3.0	-3.5							
Public Debt	% of GDP	42.8	43.6	45.2							
Gross Nonoil Trading Profits	YoY	10.2	3.6	4.5							

F Citi forecast. SAAR Seasonally adjusted annual rate. YoY Year-on-year growth rate. Note: Investment excludes inventories. Source: Citi.

Switzerland

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The Swiss economy grew much more strongly than the consensus expected in 2007, and so far surveys suggest only a modest slowdown is likely in 2008. With inflation also picking up recently, the central bank is likely to remain relatively hawkish compared to other central banks. Nevertheless, the severity of the recent rise in the CHF and the financial market crisis leads us to sharply downgrade our forecast for growth in 2009 to about 1.0% from 2.0% a month ago. As a result, we now pencil in 50 basis points of easing over the next 12 months, although near-term inflation worries probably will ensure that easing will be more delayed and gradual than markets expect.

Sweden

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The Swedish economy is gradually losing steam with activity indicators slowing, employment growth fading, and unemployment leveling out. An easy fiscal policy combined with healthy growth in disposable incomes would likely continue to support private spending, somewhat offsetting weakness in exports and capital spending. Like many other central banks, the Riksbank faces the dilemma of rising inflationary pressures amid slowing global and domestic growth. In April, the Bank kept the key policy rate unchanged and confirmed its conditional rate path of steady rates in the foreseeable future. With the ongoing credit crisis and the weakening U.S. and global economy, we expect the next move to be a cut, probably around the turn of the year.

Denmark

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Danish economic activity will likely slow further this year, reflecting the persistent housing weakness, the lagged effect of rising interest rates, the deteriorating global growth outlook, and the weak USD. Slower domestic demand growth is a welcome sign as it is set to cool the historically tight labor market and, in turn, ease inflationary pressures on the economy. The key challenge in coming years will be potential ways of boosting labor supply, while at the same time coping with age-dependent retirement. In May, the central bank chose to raise its lending rate by 10 basis points to 4.35% as the official 25-basis-point policy rate spread vis-à-vis the ECB nearly has disappeared.

Norway

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Mainland GDP growth is set to moderate amid intensifying capacity strains, lower global growth, the lagged effect of higher domestic interest rates, and a cooler housing market. High capacity pressures and accelerating wages will likely boost domestic inflation further. Adding the agricultural settlement to this mix increases the risk of a "high-inflation" scenario for the Norges Bank. We expect the key policy rate to peak at 5.75% with risks of even higher rates. A strong NOK and high NIBOR fixings exacerbate the monetary tightening, and are the main reasons why the policy rate is unlikely to go as high as indicated in the high-inflation scenario (6.26%).

Figure 32. Switzerland, Sweden, Denmark, and Norway — Economic Forecast, 2007-09F

		Switzerland			Sweden			Denmark			Norway		
		2007	2008F	2009F	2007	2008F	2009F	2007	2008F	2009F	2007	2008F	2009F
Real GDP[a]	YoY	3.1%	2.1%	1.0%	2.6%	2.1%	1.8%	1.8%	1.4%	1.3%	6.0%	4.0%	3.0%
Public Consumption	YoY	0.1	-0.4	0.0	0.8	1.6	1.3	1.7	1.7	1.6	3.2	3.1	3.3
Private Consumption	YoY	2.1	1.5	1.9	3.1	2.2	2.0	2.5	2.6	1.4	6.5	4.1	3.7
Investment (Ex Stocks)	YoY	2.75	-0.3	0.8	8.0	3.3	2.5	6.2	3.1	1.9	9.8	5.3	3.6
Exports	YoY	9.9	3.2	2.3	5.6	3.9	3.8	3.7	3.3	2.8	3.1	1.8	2.1
Imports	YoY	5.2	3.7	3.4	9.5	6.1	4.7	5.6	4.1	3.2	8.6	4.7	4.0
CPI (Average)	YoY	0.7	2.3	1.6	2.2	3.3	2.3	1.7	3.1	2.3	0.7	3.4	2.6
Unemployment Rate	%				6.1	6.0	6.3	2.8	2.4	2.7	2.5	2.4	2.7
Current Account	% of GDP	17.1	15.3	13.9	6.5	6.3	6.1	1.2	0.8	0.6	16.3	16.7	16.7
General Govt Balance	% of GDP				3.0	2.6	1.8	4.5	3.6	3.1	17.1	16.0	16.0
General Govt Debt	% of GDP				40.6	35.0	33.0	25.0	21.0	17.0	41.0	37.0	35.0

[a] For Norway, mainland GDP. F Citi forecast. YoY Year-on-year growth rate. Source: Citi.

Canada

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Diminished economic activity and moderate inflation warrant one final policy rate cut this quarter. Noted improvement in domestic financial conditions and the stable balance of medium term risks portend little if any action thereafter.

First quarter real GDP growth likely was flat, as strong consumer spending and net exports were offset by a pullback in business investment and a steep drawdown in inventories. Tighter credit conditions, anemic exports, and less robust domestic demand growth probably will result in sub-par output for the balance of 2008.

Though the Canadian economy has stalled, healthy balance sheets, favorable terms of trade, strong labor market activity, elevated wages, and hearty consumer spending, still preclude "recessionary" conditions at present. Accommodative policy, against a backdrop of healthy global growth, an improved U.S. outlook, and elevated commodity prices, should help place the expansion back on track by late 2009.

Consumer inflation measures probably will trend higher amid a likely retreat in the Canadian dollar (CAD) versus the USD and an unwinding of 2007's retail price cuts in the second half of this year. Moreover, higher food and energy costs may push overall inflation close to the top of the BoC's 1%-3% comfort zone before yearend. However, a projected peak in the core index at 1.9% should stave off a rate hike.

Risks to the Canadian inflation outlook remain two-sided. Upside risks include stronger-than-expected domestic demand, slower productivity, and spillover of higher global food and energy prices to Canada. Downside risks include stymied export growth amid tepid U.S. domestic demand, tougher lending standards and liquidity pressures, the dampening effects of past CAD appreciation on certain industries, and reduced commodity demand and prices.

The persistence and preponderance of downside risks near term likely will prompt a 25 basis point rate cut in June, followed by a lengthy pause. We do not anticipate any policy tightening before the second half of next year.

Figure 33. Canada — Economic Forecast, 2007-09F

					2007			2008F			
		2007	2008F	2009F	2Q	3Q	4Q	1QF	2QF	3QF	4QF
Real GDP	YoY	2.7%	1.1	2.5	2.6%	3.1%	2.9%	1.9%	1.3%	0.7%	0.6%
	SAAR				3.8	3.0	0.8	0.0	1.2	0.7	0.3
Final Domestic Demand	YoY	4.3	4.1	2.5	4.1	4.4	5.2	5.5	4.6	3.9	2.7
	SAAR				5.2	5.2	6.9	4.8	1.6	2.3	2.0
Private Consumption	YoY	4.7	4.7	2.9	4.6	4.5	5.4	5.9	5.0	4.7	3.5
	SAAR				5.8	4.5	7.4	6.0	2.0	3.5	2.5
Government Spending	YoY	3.7	4.1	2.8	2.9	4.2	5.1	5.2	4.8	3.8	2.7
	SAAR				4.4	6.7	6.8	3.0	2.9	2.4	2.4
Private Fixed Investment	YoY	4.0	2.0	0.9	3.8	4.3	4.5	4.3	2.9	1.2	-0.1
	SAAR				4.4	5.5	5.4	1.7	-1.1	-1.0	0.1
Exports	YoY	0.9	-2.6	1.8	2.1	1.7	-1.2	-2.7	-3.0	-3.2	-1.3
	SAAR				2.3	0.7	-8.5	-5.0	1.0	0.1	-1.3
Imports	YoY	5.7	4.3	1.9	3.3	6.2	9.2	6.5	6.0	3.1	1.7
	SAAR				7.3	18.4	10.9	-8.5	5.0	6.0	5.0
CPI	YoY	2.1	2.1	2.2	2.2	2.1	2.4	1.8	1.9	2.4	2.5
Core CPI	YoY	2.1	1.5	1.8	2.4	2.2	1.6	1.4	1.4	1.5	1.9
Unemployment Rate	%	6.0	6.0	6.0	6.1	6.0	5.9	5.9	6.0	6.1	6.2
Current Account Balance, SA	C$bn	14.2	16.6	8.0	25.6	5.3	-2.1	9.3	27.2	24.5	5.4
	% of GDP	0.9	1.0	0.5	1.7	0.3	-0.1	0.6	1.7	1.5	0.3
Net Exports (Pct. Contrib.)		-2.1	-2.9	-0.2	-1.5	-5.4	-6.4	2.1	-1.8	-2.6	-2.7
Inventories (Pct. Contrib.)		0.0	-0.5	0.0	0.4	3.0	0.6	-6.0	1.4	0.8	0.9
Budget Balance	% of GDP	0.2	0.1	0.1							

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

Australia and New Zealand

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The economic outlook in Australia continues to be heavily shaped by the need to wind back inflation from its current 4%-plus rate to the Reserve Bank of Australia's (RBA) 2%-3% inflation target. Cost pressures are leading to profit downgrades by companies and inflation expectations have drifted higher. Wage pressures have remained remarkably contained, but productivity growth has been disappointing. The Federal budget this month represented a mild tightening of fiscal policy, but not enough to shift the RBA from its tightening bias. Economic growth is slowing, but it is unclear whether the slowdown will be sufficiently durable to make significant inroads against inflation, given the large stimulus to real incomes from the still rising terms of trade. In 2008, the terms of trade could add 2.75% of GDP to real incomes.

We continue to expect the RBA to remain on hold over the next 12 months, but the near-term risk to this view remains to the upside. This should help keep the Australia–U.S. ten-year bond spread around 250 basis points. Support for the AUD remains solid, especially from the further sharp gains expected in the terms of trade. The AUD should also be supported in a medium-term sense by Australia's large fiscal surplus and the growing net asset position of the government via a number of new "investment funds."

The labor market has been a source of significant strength for the New Zealand economy over a number of years. However, the largest employment drop in 19 years occurred in the first quarter, with a decline of 1.3% (not annualized), indicating a slowdown in employment growth much earlier than anticipated. It was no surprise then that retail sales volumes were also significantly lower, falling 1.2%. The housing market continues to struggle, with sales data suggesting further declines in house prices. It is now likely that the economy contracted in the first quarter and the stimulus from the Budget will not change the short term outlook. Another significant development has been the government's decision to delay the implementation of the Emissions Trading Scheme (ETS), which lowers the inflation profile for the economy. These developments have prompted us to move up our projection for the first easing to September 2008. The cash rate is likely to be lowered by 100 basis points to 7.25% by March 2009.

Figure 34. Australia and New Zealand — Economic Forecast, 2007-2009F

	Australia			New Zealand		
	2007E	2008F	2009F	2007F	2008F	2009F
Real GDP[a]	3.9%	2.2%	3.4%	3.2%	1.5%	1.9%
Real GDP (4Q versus 4Q)	3.9	2.2	3.5	3.7	1.1	1.7
Real Final Domestic Demand	5.2	3.8	3.3	4.5	0.2	0.0
Consumption	4.5	3.5	2.7	4.5	-0.2	1.3
Govt. Current & Capital Spending	3.4	5.0	3.6	2.8	4.7	4.8
Housing Investment	3.5	0.4	4.7	4.3	-12.8	-7.8
Business Investment	11.4	5.3	4.4	6.3	4.5	2.9
Exports of Goods & Services	3.3	0.9	6.9	2.3	2.5	3.2
Imports of Goods & Services	10.7	9.3	4.3	7.6	2.0	2.0
CPI	2.3	4.1	3.1	2.4	3.3	2.8
CPI (4Q versus 4Q)	3.0	3.8	3.2	3.2	3.1	2.4
Unemployment	4.4	4.1	4.4	3.4	4.9	4.8
Merch. Trade, BOP (Local Currency, bn)	-18.9	1.7	-2.7	-3.4	-3.5	-3.5
Current Account, (Local Currency, bn)	-67.0	-47.4	-53.0	-14.2	-14.4	-13.1
Percent of GDP	-6.2	-4.1	-4.3	-8.2	-7.8	-6.9
Budget Balance[b] (Local Currency, bn)	17.2	16.8	21.7	6.1	5.2	5.2
Percent of GDP	1.6	1.5	1.8	3.6	2.9	2.9
General Govt. Debt (% of GDP)[c]	-2.9	-3.8	-3.7	3.5	4.0	4.0
Gross Trading Profits[d]	14.2	5.6	7.1	NA	NA	Na

BOP Balance of payments basis. CPI Consumer Price Index. F Citigroup forecast. NA Not available. [a]Averaged-based GDP in Australia; production in New Zealand. [b]Fiscal-year ending June. Australia's underlying cash balance. [c]Australia and New Zealand budget definition and forecasts — debt equals an asset. [d]Company gross operating surplus. Source: Citi.

China: CNY Caution Overdone

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April data reconfirmed the difficult situation facing Chinese policymakers — while economic activity showed more signs of softening, inflation rebounded. However, the perceived U.S. economic risk lessened during the past month. This could tweak the balance of policy choices slightly toward tightening. We continue to expect the central bank to fight inflation, applying a set of broad-based measures such as reserve requirements, credit controls, open market operations, and currency appreciation, unless economic activity weakens significantly.

As most readers know, a major earthquake, centered near Chengdu in Sichuan province, hit China in mid-May. The tragedy, which is currently estimated to cost some 80,000 lives, could have important implications for the economy. Disruption of the transportation infrastructure and agricultural supply could keep food prices at elevated levels for longer than we had expected. Fuel imports will rise to power emergency generators. Meanwhile, increased fixed asset investment for the purpose of reconstruction could help boost economic growth and commodity demand.

The growth of industrial production slowed to 15.7% in April from 17.8% in March, primarily driven by softening exports. So far, however, growth of retail sales and fixed asset investment remained stable in April. But this may not last for long if the effects of the U.S. recession and high food and energy costs kick in more forcefully. However, a rebound of headline inflation to 8.5% in April from 8.3% in March is becoming more worrisome. We now expect a higher inflation rate throughout 2008, lifting our forecast to 7.4% from 5.8% previously.

We had earlier forecast a slower pace of CNY appreciation in 2008, but the recent rise of the USD generally and speculation of a yuan devaluation have crushed market expectations of CNY appreciation. The annualized appreciation implied by three-month CNY NDF, for example, fell from 11.6% a month ago to 2.5% before rebounding to 6%. We think this is still overdone. Recently, the central bank reaffirmed its position of increasing exchange rate flexibility over time. We continue to expect the CNY to appreciate by 8% in 2008, reaching 6.7 by yearend, especially as inflation is proving a more stubborn problem.

Figure 35. China — Economic Forecast, 2007-09F

		2007	2008F	2009F
Real GDP	YoY	11.9%	9.8%	9.7%
Real Final Domestic Demand	YoY	12.7	12.6	11.8
Consumption	YoY	11.3	11.7	10.8
Fixed Capital Formation	YoY	15.3	15.8	14.2
Exports	YoY	25.7	19.3	16.2
Imports	YoY	20.8	24.5	20.8
Industrial Production	YoY	18.5	16.8	16.5
Merchandise Trade Balance	$bn	262.2	263.1	251.0
FX Reserves	$bn	1528	1900	2000
Current Account	% of GDP	10.8	8.3	6.4
Fiscal Balance	% of GDP	-1.8	-2.3	-1.8
General Govt. Debt	% of GDP	56.1	54.2	49.2
Urban Unemployment Rate	%	4.0	4.0	4.1
CPI	YoY	4.8	7.4	5.7
Exchange Rate	CNY/$	7.61	6.90	6.50
One-Year Base Lending Rate	%, period end	7.47	7.74	7.47

Source: Citi estimates.

Emerging Markets: Divergent Outcomes

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Uncertainties about the inflation/growth path should push more divergence in EM.

The tensions between inflation and growth have continued to strengthen in emerging markets over the past month. With perceptions that the U.S. economy may not weaken as abruptly as some worried, the higher inflation rates have generally shifted governments toward a greater concern about inflation. We continue to expect deceleration in the U.S. economy and a softer rate environment there than in the market. In general, then, the factors we have cited in the past — openness, resiliency, and policy flexibility — should continue to drive differing outcomes across emerging markets.

There are increased signs of waning activity.

Activity measures have shown increased deceleration across a range of emerging markets, especially in the most open economies across Asia and central Europe, as increasing domestic demand has not offset waning exports to the G3. GDP growth slowed more than expected in the Czech Republic and Poland. So, too, did industrial production in Brazil, China, Czech, India, Malaysia, Mexico, and Taiwan. In general, industrial production aggregates across emerging markets show deceleration, with the greatest slowdown evident in Asia (see Figure 36). The extent of deceleration, though, is much less than the 2001 tech-wreck recession.

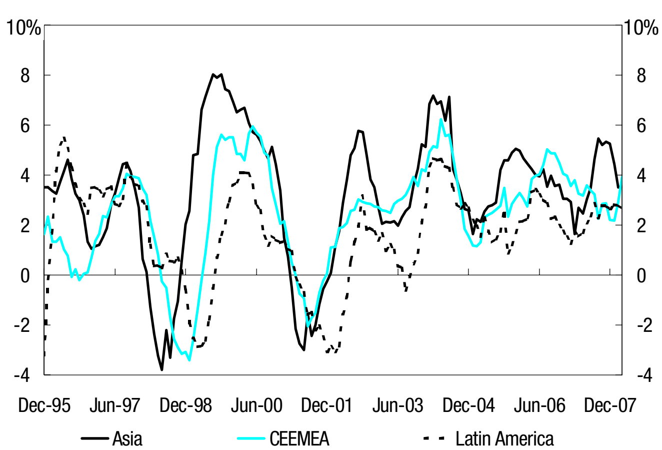
Exports, especially volumes, are also softening.

Export performance also began to show broader deterioration outside of CEEMEA (see Figure 37). With the sharp swings in commodity prices, linking export performance to growth requires a greater focus on volume rather than value data. In partial data for the latest quarter to March, emerging market export volumes are declining from their recent peaks at the end of last year.

Rising import demand from commodity exports should not offset lower G3 demand.

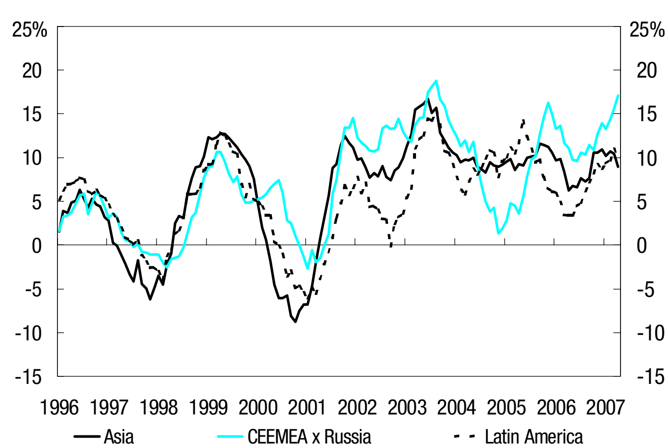
Export demand has been buoyed by the rise in demand from commodity producers with large gains in terms of trade. These are largely Middle East oil producers. However, their gain in incomes is a loss to importers. Unless commodity exporters have a larger propensity to import (which they do not), the effect is either neutral or negative. With U.S. imports falling and E.U. imports (in volume terms) likely to rise only 4% for reasons unrelated to commodity prices, a material offset from import demand of commodity-led economies looks implausible.

Figure 36. Industrial Production in Emerging Markets (Sequential Six-Month Seasonally Adjusted Percent Change), Jan 96-Mar 08



Sources: Haver and Citi calculations.

Figure 37. Export Growth in Emerging Markets (Sequential Three-Month Seasonally Adjusted Percent Change), Jan 98-Mar 08



Sources: Haver and Citi calculations.

Figure 38. Expected Output Gap and Inflation Gap in Emerging Markets, 2009E

	Real GDP			Inflation		
	2009E	Sustainable Rate	Output Gap	2009E	Target	Inflation Gap
	(1)	(2)	(3) = (1)-(2)	(4)	(5)	(6) = (4)-(5)
Asia	**7.7%**	**7.5%**	**0.2%**	**5.1%**	NA	**NA**
Bangladesh	6.5	6.9	-0.4	6.5	NA	NA
China	9.7	9.0	0.7	5.7	4.8	0.9
Hong Kong	4.6	4.5	0.1	4.8	NA	NA
India	8.3	8.0	0.3	4.5	4.3	0.2
Indonesia	6.3	6.5	-0.2	7.5	5.0	2.5
Korea	4.0	4.8	-0.8	3.0	3.0	0.0
Malaysia	5.8	6.0	-0.2	2.5	2.8	-0.3
Philippines	6.3	6.5	-0.2	6.3	4.5	1.8
Singapore	5.2	6.0	-0.8	2.6	5.0	-2.4
Sri Lanka	6.5	6.8	-0.3	12.0	10.5	1.5
Taiwan	5.0	5.0	0.0	2.0	2.0	0.0
Thailand	5.5	6.0	-0.5	6.7	1.5	5.2
Vietnam	6.4	8.2	-1.8	10.8	8.8	2.1
Latin America	**3.4%**	**4.1%**	**-0.8%**	**7.4%**	**NA**	**NA**
Argentina	2.5	3.0	0.5	14.0	9.0	5.0
Brazil	3.5	4.0	-0.5	4.7	4.5	0.2
Chile	4.3	4.7	-0.4	3.8	3.0	0.8
Colombia	4.5	4.5	0.0	4.5	4.0	0.5
Mexico	3.0	4.3	-1.3	3.6	3.0	0.6
Peru	6.5	6.8	-0.3	3.8	2.0	1.8
Uruguay	4.5	4.5	0.0	6.0	5.0	1.0
Venezuela	1.5	3.5	-2.0	33.1	19.5	13.6
Europe	**5.4%**	**6.1%**	**1.1%**	**9.2%**	**NA**	**NA**
Czech Republic	4.8	5.0	-0.2	3.5	3.0	0.5
Hungary	2.8	3.4	-0.6	4.2	4.8	-0.9
Poland	4.3	5.5	-1.2	3.1	2.5	0.6
Romania	4.2	5.5	-1.3	5.4	4.0	1.4
Russia	6.6	6.6	0.0	13.2	8.0	5.2
Slovak Rep.	6.6	6.2	0.4	3.0	2.0	1.0
Turkey	3.7	6.2	-2.5	7.8	5.0	2.8
Ukraine	5.8	7.7	-1.9	13.5	NA	NA
Africa/Mideast	**4.9**	**5.7%**	**-0.7%**	**6.5%**	**NA**	**NA**
Israel	4.0	4.8	-0.8	1.0	2.0	-1.0
Jordan	5.1	4.8	0.3	3.7	9.0	-5.3
Kazakhstan	5.3	7.3	-1.7	9.7	8.9	0.8
Nigeria	7.1	6.5	0.6	9.5	NA	NA
Pakistan	6.4	7.1	-0.6	6.8	6.5	0.3
South Africa	3.7	5.5	-1.8	5.1	4.5	0.6
Total	**6.0%**	**6.3%**	**-0.3%**	**6.5%**	**NA**	**NA**

Sources: Haver Analytics and Citi estimates.

Domestic demand in emerging markets is slowing.

Beyond commodity producers, overall emerging market domestic demand does not seem to be strong enough to offset the weakness coming from the external sector. For emerging market countries reporting first-quarter GDP growth, domestic demand ex-inventories have slowed from 7.2% to 1.9% on a seasonally adjusted annualized basis. Beyond oil producers, we only expect a handful of countries to grow above potential next year (see Figure 38), most prominently China and India.

Despite slowing activity, inflation is generally rising.

While the weakening U.S. economy is having an effect on trade flows, inflation has tended to continue to exceed market expectations, with spikes higher in Colombia, China, Czech, Indonesia, Israel, Mexico, Russia, South Africa, Thailand, Turkey, and Vietnam. This is creating greater pressure on countries where current growth is higher than sustainable rates, even if consensus forecasts show much of that gap disappearing next year (see Figure 38). This issue is especially acute in China, Brazil, India, and Russia. Inflation pressure relative to targets looks most widespread in central Europe, although our views on Latin American inflation gaps are more downbeat than the market.

The persistence of inflation will depend on its source and on policy responses.

There are two crucial aspects of the inflation picture at present. First is the question of how inflationary the relative price change in commodities is. Second is how effective monetary policy would be in lowering such inflation. In principle, the inflationary pressure from rising commodity prices should be dampened by pressure on other goods prices as households spend more on food and fuel. For this reason central banks usually focus on countering the second-round effects of supply shocks, rather than trying to quell the original shock. Indeed, the latest aggregate core inflation measures point to *moderating* inflation pressures, even as headline inflation generally creeps up (see Figures 39 and 40).

Food and energy security concerns are furthering near-term price pressures.

The concepts of food and energy security, though, cloud the picture. Concerns about access to food and energy have led a number of governments (China, India, Argentina, Malaysia, Ukraine, Egypt, UAE, Saudi Arabia) to control their prices. Unless the price increases prove temporary or fiscal pockets deep, though, a large divergence between local and international prices can generate expected future price increases that complicate inflation expectations and monetary policy. Arguably, this is what is happening in Argentina, Indonesia, Israel, the Philippines and South Africa. The biggest gaps between local and international prices tend to occur in countries that are net suppliers of food or energy. This tends to lengthen the feasibility of lower local prices (Argentina, Ukraine, Kazakhstan, wheat; Indonesia & Malaysia, crude & palm oil; Egypt, Thailand, rice).

Price controls create another complication, though, for monetary policy. By only adjusting slowly to large international prices increases, governments run the risk of boosting inflation expectations and wage demands over a the entire period of the price adjustments. This is largely an issue with energy prices, where price increases have been minimal in Indonesia, Ecuador, Egypt, Mexico, Peru and Venezuela. Again, these countries are largely producers.

Food price pressures may subside faster than other commodities.

Waning global demand does argue that commodity price inflation should subside. But the “security” measures instituted by various governments cut in just the opposite direction. So, too, do the efforts of both buyers and sellers trying to stockpile. At least for food, though, the faster supply response means that the particularly distorting effects of stockpiling are likely to fall away more quickly than with oil and metals. Hence we see food price inflation, in those countries with relative little domestic subsidies, easing off. Indeed, PK has just announced that it will increase its rice exports by one million tons given a strong harvest, while India should see a near 3% increase in its harvest this year.

Monetary policy will not have a big impact on commodity prices.

The effectiveness of monetary policy in quelling supply-driven inflation shocks is low. Tighter policy can, through lessening demand in the rest of the economy, bring down inflation. But it is powerless to alter the relative price of commodities, at least in small open economies. In large emerging market countries, or collectively across emerging markets, tighter monetary policy can dampen demand for commodities and thereby affect their prices.

Given the limitations to monetary policy in dealing with supply shocks and our concerns about waning G3 final demand, we generally have interest rate forecasts that are less aggressive than market expectations. In most of Asia we expect yield curves to steepen as short rates fall more expected. In Brazil, Indonesia, Chile and Colombia, we expect flattening as excessive concerns about inflation and a central bank that is behind the curve get backed out of markets.

Rising inflation expectations create a challenge to equity markets.

Central banks that have been forced into tightening by rising inflation expectations (Turkey, Indonesia) have created a poor macro backdrop for equities. With monetary policy tighter than it might be if inflation expectations were more stable, the costs to future output and earnings will be larger.

Authorities' choices on using the exchange rate to boost exports or quell inflation are shifting.

Lessening worries over U.S. growth have had a mixed effect on emerging market currencies. A smaller prospective interest differential (fewer expected rate cuts in the United States) has helped to bolster the USD. Meanwhile, the lessening worries have also bolstered risk appetite, which has tended to work in the opposite direction. Where central banks are viewed as more dovish on inflation, chiefly Asia, the combined effect has tended to be a weakening of local currencies against the USD. Where central banks have become more hawkish — Turkey and Israel, for example — local currencies have strengthened. In Asia, though, the extent of weakening may be excessive. Our forecasts are much more aggressive than the forwards in China, Thailand, and Philippines. While central banks can view the exchange rate as a competitiveness tool, the continuation of higher current commodity prices has made using the exchange rate as an anti-inflation tool marginally more compelling.

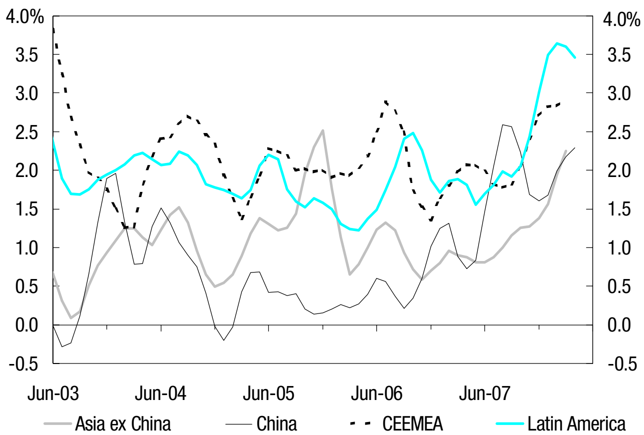
The differing effects and responses to commodity price and external growth shocks reflect the more diverse outcomes investors should expect from emerging markets in the months ahead. A return to strong global growth with low inflation looks like an unlikely palliative in the near future.

The move for greater control reflected in food and energy security may create new pressures on markets and globalization in the years ahead.

The focus on food and energy security may create another risk in the longer term for emerging markets: a retreat from the market and globalization. Last year our concern was much more about tariff wars prompted by "cheap" Chinese exports. Instead, we are getting an export-tax and quota war driven by high food prices. The volatility in commodity markets is reinforcing governments' desires to secure supplies directly rather than rely on purchasing from the market. China, India, and Saudi Arabia, for example, are seeking to have their companies take direct control of resources in other emerging markets, chiefly in Africa. But direct ownership is no guarantee of supply when the resource is critical to the local economy. Witness Argentina's bans on food exports or those of Egypt.

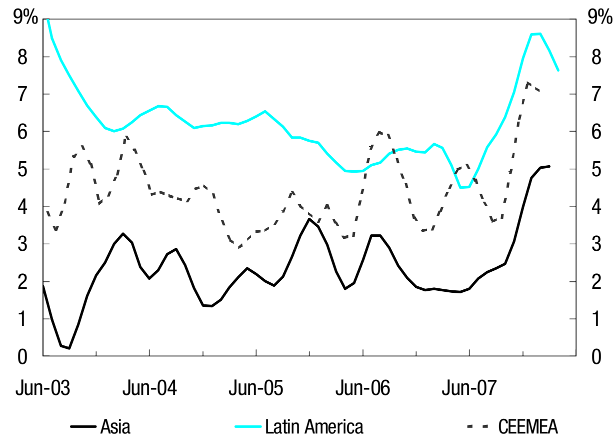
Truly securing supply may mean bolstering influence with local governments rather than simply controlling local companies. Such efforts could be positive — the increased aid flows China is using to build closer government relationships — or negative — the increased opposition to sovereign wealth funds and foreign direct investment by state-owned companies.

Figure 39. Headline Consumer Price Inflation in Emerging Markets (Sequential Three-Month Seasonally Adjusted Percent Change), Jun 03-Apr 08



Note: GDP weighted. Asia — Hong Kong, Indonesia, Korea, Philippines, Singapore, Taiwan, Thailand. CEEMEA — Czech Republic, Hungary, Poland, Slovakia, Turkey, Israel, South Africa. Latin America — Argentina, Brazil, Chile, Mexico, Peru, Venezuela.
Sources: Haver Analytics and Citi.

Figure 40. Core Consumer Price Inflation in Emerging Markets (Sequential Three-Month Seasonally Adjusted Percent Change), Jun 03-Apr 08



Note: Core inflation is defined as 20% trimmed in Asia and by respective government national statistics offices in CEEMEA and Latin America. GDP weighted. Asia — Hong Kong, Indonesia, Korea, Philippines, Singapore, Taiwan, Thailand. CEEMEA — Czech Republic, Hungary, Poland, Slovakia, Turkey, Israel, South Africa. Latin America — Argentina, Brazil, Chile, Mexico, Peru, Venezuela. Sources: Haver Analytics and Citi.

Latin America

Brazil. Inflation continues to rise, increasing pressures to tighten monetary policy. The latest wholesale price readings were higher than expected, reflecting pressures in industry and agriculture. We recently raised our 2008 year-end inflation forecast to 5.2% from 4.9%, and still see interest rates rising to 13.75% by yearend from the current 11.75%. This is roughly in line with the market. Inflationary pressures are not only a consequence of higher commodity prices, but also of the strong pace of domestic demand growth. Industrial capacity utilization seems to have stabilized at record-high levels, but most indicators show that demand has not decelerated: Retail sales continue to grow strongly, imports are rising significantly more than exports, credit continues to expand, consumer confidence remains high, and the job market is strong. Our activity indicator (BAI) points to 1.2% GDP growth in the first quarter, above the sustainable rate. The external account remains in surplus, although it is much smaller than last year, given that the current account deficit continues to deteriorate sharply and capital inflows are less abundant. This should be enough, however, to provide support for the BRL, which we see strengthening to USD/BRL 1.60 by yearend.

Colombia. Economic growth was unexpectedly high during last year's fourth quarter, posting an 8.1% annual increase. Preliminary data indicate that during the first quarter economic activity moderated. We expect growth to reach 5.3% this year, down from 7.5% in 2007, as higher interest rates and lower credit and money growth will likely help to restrain aggregate demand. There is a large probability that food inflation will cause the central bank to miss its 2008 target (which happened in 2007). Indexation practices in administered prices, cost pressures, and excess demand indicate that core inflation dynamics will remain challenging during the remainder of the year. Low pass-through and sticky nontraded goods inflation will likely persist in the coming quarters.

As a result of all these factors, we are less optimistic on inflation. Despite the risk of missing the inflation target again in 2008, we believe that Banrep is now more focused on the exchange rate and its future impact on local activity. This implicit dual target (inflation and exchange rate) will likely complicate liquidity management and the effectiveness of the repo rate as a monetary policy instrument. Therefore, we believe that the bank will likely keep hawkish language against inflation and will likely resort to alternative monetary policy instruments instead of increasing the repo rate.

On the external front, we expect favorable conditions for the rest of the year. The terms of trade will likely remain high, supporting strong export performance and solid FDI flows. The trade balance showed a US$42 million surplus in the first two months of 2008, up from a US$600 million deficit in the same period last year. FDI inflows continue to rise, too.

Mexico. GDP growth decelerated in annualized terms in the first quarter to 2.0% from 4.5% in the fourth quarter of 2007. However, we raised our GDP growth forecast to 2.6% from 2.2% previously because of a higher-than-expected impact of the leap year on annual growth activity in February (5.8% year over year using the new 2003 base year), and higher expected growth for domestic and external demand, largely associated with last month's upward revision to the U.S. growth forecast. Regarding inflation, both the headline and core annual rates rebounded in April to 4.5% and 4.6%, respectively, reflecting pressures associated with processed foods prices on the back of high commodity prices, which are likely to linger on for several months, leading to a hump in headline inflation over 5.0% by the end of the second quarter. However, we stick to our yearend 4.1% headline inflation forecast. Hence, we maintain our view of Banxico's easing cycle starting at the end of the third quarter, but we acknowledge that risks to our base-case scenario have risen. We see a stronger USD/MXN in the first half of 2008, but we estimate that it will reverse in the second half, with the USD/MXN closing this year at 10.70. On politics and structural reform, the congressional debate on the oil-sector reform bill submitted by President Calderón has started. We are confident that it will be approved during an extraordinary session in the summer.

Panama. Our local economic outlook is constructive, as we expect real GDP to grow 9% this year. The latest figures of the monthly real GDP proxy (IMAE) show the economy expanding above 10%. Despite the upbeat sentiment on activity, we believe that consumer confidence is quite sensitive to inflation, which has accelerated because of higher oil and soft-commodity prices. We expect yearend inflation to reach 9.5% in 2008, up from 6.4% at yearend 2007. As accelerating imported inflation is beyond the government's control, we expect it to contain domestic sources of inflation with a restrictive fiscal policy leading to a 1%-of-GDP fiscal surplus in 2008. On the political front, the country is gearing up for next year's presidential election. The ruling Revolutionary Democratic Party (PRD) already has three possible candidates: former Housing Minister Balbina Herrera, former Agriculture Minister Laurentino Cortizo, and Mayor of Panama City Juan Carlos Navarro. We think Balbina Herrera and Juan Carlos Navarro have a higher probability of becoming the PRD's presidential candidate. Both candidates are market friendly and are not likely to initiate major economic policy shifts.

Asia

India. Wholesale price inflation stayed above 7% for two consecutive months in March and April and neared 8% in May, significantly exceeding the RBI's comfort band of 5%-5.5%. The central bank once again surprised the markets by raising the cash reserve ratio (CRR) by 25 basis points to 8.25%. If the inflation rate remains at elevated levels, this may not be the last tightening step. The consumption downturn that emerged at the beginning of the year may soon be arrested as a result of fiscal stimuli from budgetary proposals and recommendations of the Sixth Pay Commission. But the start of growth deceleration spreading to investment could be more worrisome. The recent volatile industrial production data could also point to downside risks for the economy. We expect GDP growth to average 7.7% in fiscal year 2009, a marked slowdown from the 8.7% average of the last five years.

India has been sheltering consumers from rising international food and fuel prices through price controls and other measures that are shifting costs to the government. However, the continued uptrend in oil prices will likely have repercussions on India's balance of payment positions. Our base-case assumption of oil prices at US$105 per barrel (bbl) (Indian basket) would result in a current account deficit of US$36.7 billion in fiscal year 2009. The arithmetic indicates that a US$1/bbl increase in oil prices could widen the trade deficit by US$700 million. With a likely deceleration in capital flows, oil prices higher than US$140/bbl levels could mean a drawdown of reserves and would have a negative impact on the currency. Now that the central bank is relying more on CRR adjustment to absorb liquidity and tame inflation, bond yields could average 7.9% in fiscal year 2009.

Indonesia. Brewing inflation pressures arising from higher food and commodities prices have raised the CPI further to 9% in April, with upside risks showing no signs of abating. The Ministry of Finance indicated that it would hike fuel prices by 20%-30% as early as June. As a result, the CPI may rise 11%-12% this summer. The Bank of Indonesia (BI) hiked the policy rate by 25 basis points to 8.25% on the May 6, signaling its intentions to contain inflation risks. We have subsequently raised our policy rate forecasts, expecting two more rate hikes by yearend of 50 basis points each. We are also raising our CPI inflation forecasts for 2008 and 2009 to 9.5% and 7.5%, respectively.

We expect the rupiah (IDR) to remain well supported for the rest of the year. The recent rate hike (with at least another 100 basis points expected by yearend), coupled with the government's proposal to increase fuel prices, which will likely improve the fiscal deficit position, should also support the rupiah. We expect the IDR to stay at the 9300 level between the second and third quarters of 2008 before strengthening further to the 9200 level between the fourth quarter of 2008 and the first quarter of 2009. However, scope for a big IDR appreciation remains limited, as concerns over export competitiveness will likely depress the government's tolerance for a stronger IDR.

Philippines. Elevated levels of headline and core inflation rates since January conspired to raise interest rate expectations and steepened the local bond yield curve. Inflation in Philippines remains driven by supply shocks, primarily from food. Policymakers have maintained a neutral policy bias, partly because of downside risks to near-term growth. The gap between headline and core inflation readings may continue. However, a modest national wage adjustment of 5.5%, well within the inflation assumptions of policymakers, has lessened inflation risks. We assign a lower probability to policy rate tightening. We are more concerned about the return of fiscal weakness — with hefty rice subsidy costs of Php40 billion to Php50 billion currently "off-budget." Without policy intervention, the combination of inflation shocks, sharply rising market interest rates, risk aversion, and lackluster exports could weigh on consumption and investment spending.

Taiwan. Inflation concerns continued to rise as the incoming KMT government decided to gradually adjust prices of gasoline, electricity, and water to reflect rising international energy costs. Since the outgoing DPP government froze gasoline prices last October, international crude oil prices have gone up over 40%. Inflation pressure is likely to persist for a while. The Central Bank of China showed no signs of putting an end to monetary tightening when it raised the discount rate by another 12.5 basis points to 3.5% in March. Indeed, short-term market interest rates continued to rise at a very slow pace, likely reflecting higher expected inflation and higher policy rates. Long-term bond yields consolidated within a narrow range. We expect the central bank to raise the discount rate again by another 12.5 basis points in June and possibly once more in September. Bond yields will likely continue to be range-bound, influenced not only by ample liquidity, but also the rising cost of carry trades.

The recent fall of the New Taiwan dollar (NTD) reflected uncertainty in the global economy and profit-taking of foreign portfolio investors. However, we remain bullish about the NTD outlook as our assumptions of a stable domestic economy, improving cross-strait relations, and a more favorable central bank attitude toward NTD appreciation remain intact. We maintain our NTD forecast of 29.8 against the USD at yearend, representing an 8% appreciation rate for 2008.

Central Europe, Middle East, Africa

Czech Republic. First quarter GDP slowed from its 2007 peak, rising 5.4% year over year. However, strong employment growth in the quarter curbed productivity gains. In the future, we expect employment and GDP growth to weaken, consistent with waning manufacturing confidence surveys. Our forecast of 4.6% for 2008 also assumes slowing consumption growth. The main downside risk to this outlook is export performance, which should be tested by a strong koruna and an expected slowdown in foreign demand.

Inflation eased from January's highs, but it is probably not low enough to prompt monetary easing. The strong currency is the key disinflationary factor; however, until the labor market softens, we expect monetary policy to remain tight. If currency depreciates, price expectations worsen, and unit labor costs are still not contained in the near term, we see an upside risk to our forecast of a stable policy rate in 2008.

Poland. After growing by 6.5% in 2007, GDP is likely to slow to around 5% in 2008, as a result of weaker net exports and some moderation in investment activity. However, private consumption will probably continue to expand at a robust pace, fueled by an improving labor market, pension indexation, tax wedge cuts, and expectations of a 2009 reduction in personal income taxes.

Although inflation is likely to reach 4.7%-4.9% year on year in August, we expect price pressures to ease in the last quarter of 2008. According to our estimates, the CPI may fall to 3.6% by the end of 2008 thanks to a base effect and a stronger currency. Therefore, we expect the central bank to hike rates by only 25 basis points to 50 basis points in the coming months, and then leave rates on hold. Furthermore, in our opinion, falling inflation and moderating economic growth will open doors for monetary easing in 2009.

South Africa. Recent economic data provide further evidence that the economy is slowing down, after three years of above-par expansion. We look for growth of modestly above 3% this year. In an environment where higher interest rates and the erosion of real incomes through inflation weigh on domestic demand, 2009 also looks likely to be another year of subpar growth.

Weakening demand, however, has yet to halt the inflation acceleration, which partly reflects exogenous shocks (food, oil), but also reflects strong demand growth in the past few years and, more recently, rand depreciation. Because most of the latest rand weakening has not yet filtered through to domestic prices, and there is a likely strong rise in electricity tariffs in coming years, we now only expect a gradual deceleration in inflation from the third quarter on, and no return to the 3%-6% target before 2010.

Consequently, we expect the Reserve Bank to maintain a tight policy stance over the next two years, raising rates by an additional 50 basis points at the June 12 MPC meeting and probably not cutting until the second half of 2010. We expect high interest rates to provide some near-term support for the rand, but in the medium term the mix of large external deficits and less favorable growth prospects warrant a renewed test of R8.00/US$, either in late 2008 or 2009 in our view.

Key Emerging Markets Indicators and Forecasts

Figure 41. Selected Emerging Market Countries — Economic Forecast Overview, 2007-09F

	GDP Growth			CPI Inflation			Current Balance (% of GDP)			Fiscal Balance (% of GDP)		
	2007F	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F	2007F	2008F	2009F
Asia	**8.9%**	**7.5%**	**7.7%**	**4.1%**	**6.6%**	**5.1%**	**7.0%**	**5.1%**	**4.1%**	**-0.1%**	**-1.9%**	**-1.7%**
Bangladesh	6.1	6.0	6.5	9.3	8.5	6.5	1.2	-0.3	-2.2	-4.2	-4.5	-4.6
China	11.9	9.8	9.7	4.8	7.4	5.7	10.8	8.3	6.4	-1.8	-2.0	-1.5
Hong Kong	6.4	4.8	4.6	2.0	4.0	4.8	13.5	12.1	10.2	7.7	-0.8	1.6
India*	8.7	7.7	8.3	4.5	6.0	4.5	-1.2	-2.8	-2.0	-6.0	-5.8	-5.2
Indonesia	6.3	6.0	6.3	6.4	9.5	7.5	2.5	1.4	0.8	-1.3	-2.3	-2.1
Korea	5.0	4.2	4.0	2.5	4.0	3.0	0.6	-1.6	-0.8	3.8	1.5	0.7
Malaysia	6.3	5.3	5.8	2.0	2.9	2.5	15.5	13.2	11.2	-2.8	-3.0	-3.0
Philippines	7.3	5.6	6.3	2.8	8.3	6.3	4.4	2.4	2.1	-0.1	-0.5	0.1
Singapore	7.7	4.7	5.2	2.1	6.2	2.6	24.3	22.0	20.0	10.7	6.0	5.0
Sri Lanka	6.8	6.0	6.5	15.8	18.0	12.0	-4.3	-3.5	-2.8	-7.7	-6.8	-6.7
Taiwan	5.7	4.2	5.0	1.8	2.8	2.0	8.3	6.5	6.0	-0.2	-0.8	-1.0
Thailand	4.8	5.1	5.5	2.3	7.6	6.7	6.1	-1.2	-2.3	-1.4	-2.0	-1.9
Vietnam	8.5	6.7	6.4	8.4	21.6	10.8	-8.3	-20.7	-11.0	-7.0	-7.2	-7.3
Latin America	**5.4%**	**4.4%**	**3.3%**	**5.2%**	**7.2%**	**7.4%**	**0.7%**	**-0.6%**	**-1.5%**	**-0.4%**	**-0.2%**	**-0.8%**
Argentina	8.6	5.5	2.5	8.8	9.6	14.0	2.8	3.4	2.1	0.2	1.1	-0.6
Brazil	5.4	4.6	3.5	3.6	5.2	4.7	0.1	-1.8	-2.0	-2.3	-1.6	-1.6
Chile	5.1	4.1	4.3	4.4	7.0	3.8	4.3	1.2	-1.8	8.9	7.0	4.0
Colombia	7.5	5.3	4.5	5.5	5.9	4.5	-3.4	-3.7	-4.0	-0.7	-1.4	-1.5
Ecuador	2.0	2.5	3.5	2.3	7.5	4.2	2.3	5.7	5.0	0.1	3.6	1.2
Mexico	3.2	2.6	3.0	4.0	4.3	3.6	-0.7	-1.3	-2.3	0.0	0.0	0.0
Panama	11.2	9.0	8.0	4.2	9.5	5.4	-8.0	-9.0	-6.9	3.5	1.0	0.0
Peru	8.5	8.5	6.5	1.8	4.9	3.8	1.5	-0.8	-1.2	6.1	5.8	2.1
Uruguay	7.2	6.0	4.5	8.1	6.7	6.0	-2.0	-1.3	-2.0	0.0	-0.5	-0.5
Venezuela	8.4	5.9	1.5	18.7	29.1	33.1	8.8	5.5	0.9	-2.6	-2.0	-3.9
Europe	**6.7%**	**5.5%**	**5.4%**	**7.3%**	**11.3%**	**9.2%**	**-0.7%**	**0.0%**	**-0.9%**	**1.2%**	**2.3%**	**2.3%**
Czech Republic	6.5	4.6	4.8	2.8	6.4	3.5	-2.6	-2.8	-2.4	-1.6	-1.7	-1.8
Hungary	1.3	2.3	2.8	8.1	6.2	4.2	-5.0	-4.2	-3.8	-5.5	-3.8	-3.6
Poland	6.5	5.0	4.3	2.5	4.2	3.1	-3.8	-4.8	-4.8	-1.5	-2.1	-2.3
Romania	6.0	4.5	4.2	4.8	7.8	5.4	-13.9	-13.0	-11.5	-2.4	-2.5	-2.5
Russia	8.1	6.8	6.6	9.0	14.8	13.2	6.1	7.1	4.2	5.5	8.1	7.8
Slovak Rep.	10.4	7.7	6.6	2.8	4.0	3.0	-5.3	-4.0	-2.5	-2.2	-2.0	-1.9
Turkey	4.5	3.6	3.7	8.8	10.0	7.8	-5.8	-6.8	-5.9	-1.9	-2.4	-3.1
Ukraine	7.6	6.4	5.8	12.8	25.4	13.5	-4.2	-5.8	-6.2	-0.9	-1.8	-2.1
Africa/Mideast	**5.9%**	**5.9%**	**4.9%**	**6.9%**	**10.2%**	**6.5%**	**10.0%**	**15.2%**	**9.2%**	**4.7%**	**6.2%**	**2.5%**
Egypt	7.0	5.9	4.7	9.6	14.2	9.3	0.3	-2.2	-3.6	-4.8	-6.5	-7.0
Israel	5.3	3.8	4.0	0.5	4.0	2.3	3.1	1.2	1.9	0.1	-0.1	0.5
Jordan	6.0	4.6	5.1	5.4	5.0	3.7	-17.5	-18.4	-20.6	-5.5	-6.5	-7.7
Kazakhstan	8.5	5.0	5.3	10.8	16.2	9.7	-7.2	-3.0	-1.9	-1.8	-2.0	-1.7
Kuwait	6.8	6.2	3.2	5.5	9.4	3.8	56.8	63.3	55.7	26.2	29.6	21.3
Lebanon	4.0	1.9	2.3	5.7	11.9	7.4	-5.1	-8.7	-7.0	-10.3	-11.3	-12.6
Nigeria	6.2	6.9	7.1	5.4	8.7	9.5	0.9	4.9	2.1	-3.5	-2.7	-2.3
Pakistan	5.6	6.3	6.4	11.9	15.7	6.8	-8.1	-6.7	-7.1	-6.7	-6.3	-5.8
Qatar	8.6	8.2	7.6	13.8	14.0	11.5	15.2	19.2	11.6	5.7	8.8	1.4
Saudi Arabia	3.6	7.3	4.4	4.1	9.0	4.8	25.0	34.0	23.2	12.5	15.7	6.3
South Africa	5.1	3.2	3.7	7.2	9.0	5.1	-7.3	-6.7	-6.8	0.8	0.3	0.2
United Arab Emirates	9.1	8.1	5.6	10.8	9.9	8.6	18.0	26.0	11.5	12.7	18.7	11.7
Total	**7.4%**	**6.3%**	**6.0%**	**5.3%**	**8.0%**	**6.5%**	**4.5%**	**4.0%**	**2.6%**	**0.7%**	**0.2%**	**-0.3%**

Source GDP and CPI are expressed as year-to-year percent change. Calendar years except fiscal years for Bangladesh, India, and Pakistan. F Citi forecasts. Source: Citi.

Figure 42 . Citi Economic and Market Analysis (EMA) Team

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Figure 43. Recent Publications from the Citigroup Economic and Market Analysis (EMA) Team

Title	Contact Name	Date of Publication
Annual Report		
Industrial Countries		
Prospects for Financial Markets	Lewis Alexander	November 21, 2007
Monthly Reports		
Industrial Countries		
Global Economic Outlook and Strategy	Lewis Alexander	April 2008
Emerging Markets		
Emerging World	Don Hanna	April 2008
Latin America Economic Outlook and Strategy	Alberto Ades	April 2008
Asia Economic Outlook and Strategy	Yiping Huang	April 2008
Weekly Reports		
Industrial Countries		
Comments on Credit (North America)	Robert V. DiClemente	
"The Burden of Adjustment"		May 16, 2008
"Missing Pieces"		May 9, 2008
"The Rocky Road to Rebates"		May 2, 2008
"Fed Set to Slow The Pace of Easing"		April 25, 2008
Euro Weekly	Michael Saunders	
"Hawkish ECB, Hawkish Norges Bank"		May 22, 2008
"Lies and Statistics"		May 15, 2008
"Downside Risks From Consumers"		May 8, 2008
"Neutral But Not Calm"		May 1, 2008
"Excessive Bond Volatility"		April 24, 2008
Sterling Weekly (United Kingdom)	Michael Saunders	
"The File Economy"		May 16, 2008
"Economic Clouds Darkening"		May 9, 2008
"MPC On Hold In May, But Not Finished"		May 2, 2008
"Financial Crisis not Ended, Retail Slowdown has Begun"		April 25, 2008
Issues and Prospects (Japan)	Kiichi Murashima	
"Stable Outlook"		May 22, 2008
"A Positive Side of Rising Commodity Prices"		May 15, 2008
"BoJ's Outlook Report: Shifting to a Neutral Stance"		May 1, 2008
"Tembo Report Preview: No Rate Hike, But Only for Now		April 24, 2008
Australia and NZ Weekly: Economy and Markets	Stephen Halmarick	
"Australia: Monetary & Fiscal Update"		May 16, 2008
"RBA On Hold, But Upside Risks"		May 9, 2008
"RBA SMP Preview: Slower Growth – Higher Inflation"		May 2, 2008
"Waiting and Hoping"		April 24, 2008
Emerging Markets	Don Hanna	
The Week Ahead: Asian Edition	Yiping Huang	May 16, 2008
Eastern Europe/Middle East/Africa Daily and the Week Ahead	David Lubin	May 16, 2008
Latin America: The Week Ahead	Alberto Ades	May 16, 2008

EMA research is available through your sales representative via mail or the Internet.

Notes

Disclosure Appendix A1

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