



FINANCIAL MARKET ANALYSIS

Volume 10, Issue 8

March 4, 2010

Market momentum fades as mixed data clouds recovery outlook

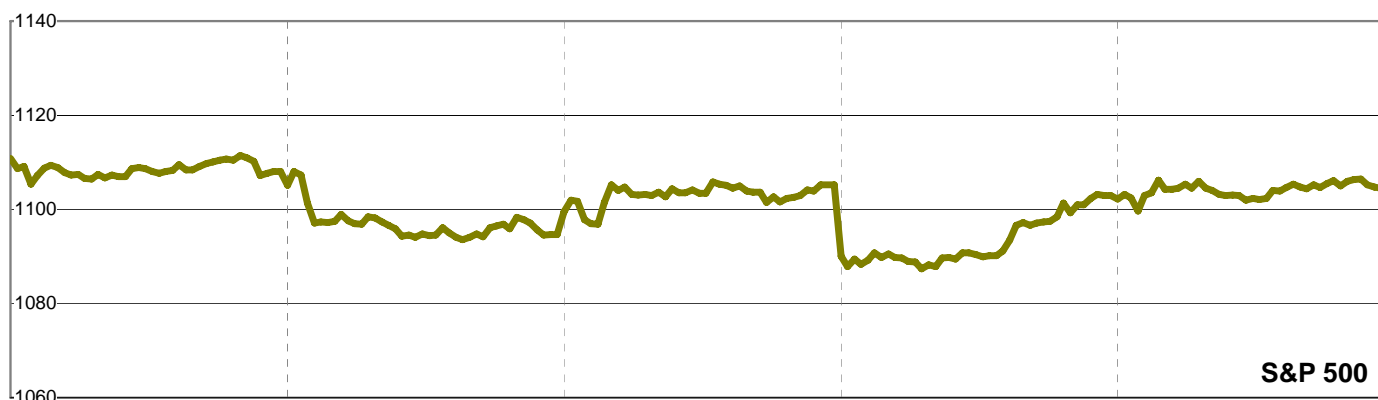
Markets struggled to find a clear direction as sovereign debt worries in Europe and mixed economic signals in the US left the recovery outlook hazy. Greece's fiscal woes continue to be unresolved, leaving investors to fret increasingly about worst-case scenarios in which its European neighbours fail to bail out the beleaguered nation. Over in the US, Fed Chairman Bernanke assured markets that interest rates will stay low for some time, following the prior week's discount rate hike. While that should relieve fears of premature rate hikes choking the recovery, it also suggests that the Fed is not fully confident about the economy's turnaround. Indeed, this uncertainty was underscored by a surprise fall in consumer confidence, a rise in jobless insurance claims and weak home sales data – though the poor data readings may have been caused in part by severe weather conditions. This week, the central banks of Australia, Euro zone and UK are due to announce policy rate decisions for the month. Markets are also likely to continue looking out for any progress in Greece's fiscal problems. On the data front, US payroll data on Friday is likely to be the most important report for the week.

	Feb 26 close	Last week's return	YTD return	YTD return (USD)
S&P 500:	1104.49	-0.42%	-0.95%	-0.95%
DJ Euro STOXX:	256.81	-2.10%	-6.53%	-11.28%
Nikkei 225:	10126.03	+0.02%	-3.99%	-0.17%
MSCI Asia ex Japan:	394.07	+1.18%	-5.39%	-5.39%

In this issue:

- *US economy: Impact of severe winter whiteout*
- *Europe economy: European Central Bank preview — Mini steps*
- *Asia-Pacific economy: Monetary policy at the crossroads*

TAKING STOCK



Monday Feb 22	Tuesday Feb 23	Wednesday Feb 24	Thursday Feb 25	Friday Feb 26
S&P: -0.10% STOXX: -0.38% Nikkei: +2.74% MSCI Asia ex Japan: +2.09%	S&P: -1.21% STOXX: -1.55% Nikkei: -0.47% MSCI Asia ex Japan: +0.37%	S&P: +0.97% STOXX: +0.07% Nikkei: -1.48% MSCI Asia ex Japan: -1.11%	S&P: -0.21% STOXX: -1.76% Nikkei: -0.95% MSCI Asia ex Japan: -1.44%	S&P: +0.14% STOXX: +1.54% Nikkei: +0.24% MSCI Asia ex Japan: +1.31%
<p>US: Fed president Janet Yellen says the economy still needs extraordinarily low interest rates, as inflation is "undesirably low" and growth will likely be sluggish for several years. She adds that GDP will likely grow at 3.5% in 2010 and 4.5% in 2011.</p> <p>JP: <i>Toyota Motor</i> says it faces a US criminal investigation into its handling of the safety problems that have led to massive recalls, while a US congressional panel accuses it of making misleading statements.</p> <p>EU: Bank of Greece Governor (and ECB governing council member) Protopoulos says he is confident Greece will meet its 'very ambitious' goals. He adds that The Greek government is set to take additional measures if needed. The EU's pledge to help Greece is 'quite reassuring' and markets are overreacting to Greek crisis.</p> <p>EU: Germany's financial watchdog BaFin, in an internal report to Finance Minister Schäuble, warns of a collective periphery risk in the Euro zone and that Greece may just provide the spark.</p> <p>AP: Singapore's FY09 fiscal deficit comes in at \$2.9b, well under the \$8.7b budgeted. A deficit of \$3b is estimated for FY10. New spending includes \$5.5b on raising productivity.</p> <p>AP: Taiwan's GDP rises 9.2% in 4Q09, much more than forecast and the fastest pace since 3Q04. For 2009, real GDP fell only 1.9%. <i>1Q10 GDP is likely to top 9% but Taiwan's policymakers may wait for other central bankers to tighten before raising rates.</i></p>	<p>US: The Conference Board's consumer confidence measure dives unexpectedly in Feb to a 10-month low of 46.0 from Jan's 56.5.</p> <p>US: The Case-Shiller 20-city home price index rises 0.3% MoM in Dec, taking the YoY rate to -3.1%, the best performance since May 07.</p> <p>EU: Germany's ifo business climate index falls from 95.8 in Jan to 95.2 in Feb, the 1st decline since Mar 09. <i>The surprise fall was likely due to harsh winter conditions. The index remains around the long-term average, implying Germany is likely to continue a modest economic recovery.</i></p> <p>EU: Fitch downgrades Greece's 4 largest banks to 'BBB' with outlook negative.</p> <p>EU: The British Bankers' Association says mortgage advances for house purchase fell back in Jan to 35,083, the lowest since May 09, from Dec's 45,582 approvals.</p> <p>EU: BOE governor King says the central bank may expand QE again if necessary.</p> <p>AP: Singapore's CPI inflation rises a modest 0.2% in Jan, less than expected. <i>This partly reflects methodological changes following the rebasing of the CPI index.</i></p> <p>AP: Hong Kong's CPI rises 1% in Jan, down from 1.3% in Dec, in line with expectations.</p> <p>AP: RBA Deputy Governor Battellino says Australia is entering a mining investment boom, bigger than those in the 1960s and 1970s. This may present complex challenges for policymakers. The comments were seen to be somewhat hawkish.</p>	<p>US: Fed chairman Bernanke says the economy's nascent recovery still warrants an exceptionally low policy rate for an extended period.</p> <p>US: New home sales fall unexpectedly in Jan, down 11.2% to a record low of 309,000.</p> <p>EU: S&P says Greece's BBB+ sovereign rating may be downgraded 1-2 notches within a month.</p> <p>EU: A 24h strike starts in Greece to protest against the government's fiscal tightening measures.</p> <p>EU: Germany's economy stalls in 4Q09 with zero GDP growth. Meanwhile, the Gfk consumer confidence slips in March, from 3.3 to 3.2.</p> <p>JP: Exports maintain strong growth in Jan, up 6.9%, after a 4.7% gain in Dec and a 5.9% increase in Nov. <i>The Jan number may have been boosted temporarily by frontloading ahead of Chinese New Year in Feb.</i></p> <p>AP: China's bank regulator tells commercial lenders to restrict new lending to local governments to ward-off potential risks of default.</p> <p>AP: Hong Kong's economy returns to growth in 4Q09, up 2.6%, beating expectations. For 2009, GDP fell 2.7%. <i>Strong growth in exports and household spending is likely to continue leading the economic recovery, with GDP to top 6% growth in 1Q10.</i></p> <p>AP: Wage growth in Australia moderates to a 0.6% rise in 4Q09, taking yearly growth down from 3.6% to 3%, the slowest in 9 years. The private sector drove the weaker-than-expected result</p>	<p>US: Durable goods orders spike up 3% in Jan on the back of a 126% jump in non-defence aircraft. This is the biggest gain since Jul 09. Excluding the volatile transportation category, orders fell 0.6%.</p> <p>US: Initial jobless claims jump 22,000 to 496,000. Part of the rise was attributed to adverse weather. The 4-week moving average stands at 473,750, the highest since Nov 09.</p> <p>US: The Fed says it will look into whether Goldman Sachs and other Wall Street firms have been betting on a Greek sovereign debt default.</p> <p>EU: Euro area economic confidence slips in Feb from 95.9 from 96 in Jan. This is the 1st decline since Mar 09.</p> <p>EU: Greece is reported to be planning a €3b-€5b issue of 10-year bonds next week instead of this week, when the country faced a general strike and debt rating downgrade warnings.</p> <p>EU: Business investment in the UK falls in 4Q09 by 24.1%, the biggest drop since data began in 1967. Real business investment has fallen 24.8% since the recession began, twice the drop at the same stage of the early 1980s and early 1990s recessions.</p> <p>EU: German unemployment rises less than expected in Feb, by 7,000. The jobless rate edged up to 8.2%.</p> <p>AP: Private sector capex in Australia jumps 5.5% in 4Q09, more than twice the pace expected. The rise came solely from a 12.4% increase in plant and machinery investment.</p>	<p>US: Existing homes sales plunge unexpectedly in Jan, down 7.2% to a 5.05m-unit annualized pace. <i>Mid-Feb blizzards may derail much activity for Feb, with signs already evident from retailers.</i></p> <p>US: The University of Michigan's consumer sentiment index slips to 73.6 in the final read for Feb, little changed from Jan's 74.4.</p> <p>US: The Chicago business barometer remains in positive territory in Feb at 62.6.</p> <p>US: GDP growth is revised up to 5.9% for 4Q09.</p> <p>EU: Euro area inflation in Jan is confirmed at 1%, up from Dec's 0.9%. Core inflation eased more than expected, from 1.1% to 0.9% - the lowest since mid-2000.</p> <p>EU: UK's GDP rose 0.3% QoQ in 4Q09, up from a provisional estimate of 0.1%. <i>The GDP figure puts paid to talk that weak 4Q09 business investment implied a downward revision to GDP.</i></p> <p>EU: Switzerland's KOF economic indicators rises to 1.87 in Feb, from 1.81 in Jan., the strongest level since Dec 07. <i>GDP growth is likely to pick up further in 1Q10.</i></p> <p>JP: Industrial production rises 2.5% in Jan after a 1.9% gain in Dec, an 11th consecutive monthly rise.</p> <p>JP: The nationwide core CPI declines 1.3% in Jan, at the same rate as in Dec.</p> <p>AP: Industrial production in Singapore jumps 39.4% in Jan, beating expectations and Dec's 14.6% expansion.</p>

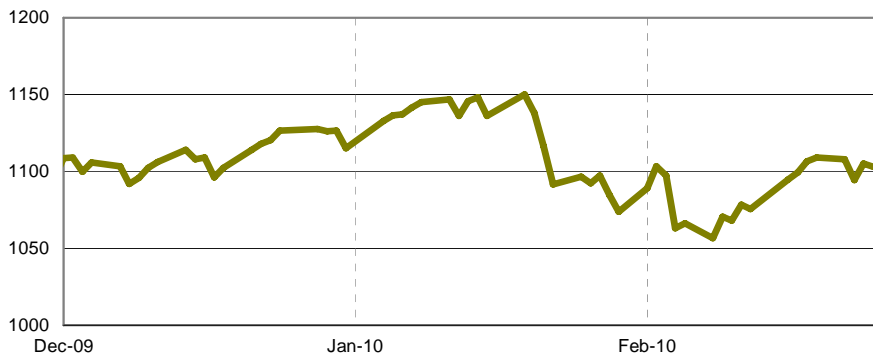
Over the Weekend
Feb 27 and Feb 28

Others: Chile is hit by a massive earthquake, with a magnitude of 8.8 on the Richter scale, that kills at least 700 people.

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

US/NORTH AMERICA

S&P 500 (1/12/2009 to 26/2/2010)



Source: Bloomberg

Economic Outlook

Impact of severe winter whiteout

Economic data this past week have been surprisingly soft, with declines in new home sales, consumer confidence, and even a drop in core consumer prices. While this wave of data presents challenges to the forecast, these figures have also been rocked by an array of special factors such as unusual weather that could explain the weakness.

Upcoming employment data may bring these weather effects to a head as the February survey week was punctuated by a massive storm. Citi analysts expect a drop in payrolls of 125,000 for the month.

Meanwhile, record numbers of permanent and long-term unemployed hint at structural damage to the labour market. Nonetheless, generous jobless benefits may be overstating this problem somewhat while widespread short-staffing suggests companies may need to restore headcount or forego opportunities for growth.

Equities

Neutral on Telecoms, underweight Household & Personal Products

	Last week's close	Last week's return	YTD return
S&P 500	1104.49	-0.42%	-0.95%
DJIA	10325.26	-0.74%	-0.99%
Nasdaq	2238.26	-0.25%	-1.36%

The Telecoms industry group is lifted to neutral from underweight by Citi analysts. Valuation yields attractive outperformance potential offset by seasonal trading pattern weakness. However, the foremost factor affecting the upgrade is that earnings estimate revision momentum trends appear to be near historical trough levels. In addition, the group has meaningfully underperformed the market over the past six months.

Meanwhile, within the Consumer Staples industry group, Household & Personal Products has been downgraded to underweight from neutral, given earnings estimate revisions appear to be rolling over from peak levels, correlation-driven valuation metrics imply underperformance, and economic data also indicates stock price challenges. Moreover, any further strength in the US dollar may likely generate the potential for earnings misses given the hefty international sales exposures.

Prefer: Energy, Industrials, Technology, Consumer Discretionary

Less in favour: Healthcare, Financials, Consumer Staples

Source: CIRA

Bonds

High grade corporate debt expected to outperform

	Feb 26 2010	Feb 19 2010	Feb 12 2010
2-yr Try:	0.812%	0.916%	0.827%
5-yr Try:	2.302%	2.449%	2.330%
10-yr Try:	3.612%	3.773%	3.693%

Treasuries: Citi analysts anticipate volatility to remain low and rates to remain range-bound in the near term.

High-grade corporates: As fundamentals improve, Citi analysts expect spreads to tighten an additional 25% in 2010. With a nod to the significant shift in government yield curves, corporate debt is expected to outperform other high-grade asset classes

High-yield corporates: De-leveraging, the pickup in demand and much improved financing conditions imply a sharp drop in default rates during 2010 and suggest opportunities, but on a highly selective basis.

EMD: Citi analysts are constructive on Asia and Latin America credits as improved liquidity and risk appetite persist.

The Week Ahead

1/3

- Citi analysts expect a healthy gain in **personal income** to 0.5% in January, especially wages and salaries, based on the solid rise in aggregate hours worked.

2/3

- Motor vehicle sales** likely dropped to 10.3 million in February, as a string of winter storms hit large population centers.

3/3

- The same weather factors that dampened the ISM Manufacturing Index is likely to play a role in masking growth in February's **non-manufacturing survey** (49.5).

4/3

- Initial jobless claims** for the week ending February 27 likely fell by 26,000, but post-President's Day holiday effects and inclement weather pose risks to this forecast.

5/3

- The blizzard that blanketed the East Coast during the February employment survey week probably caused a sharp decline in **payrolls** for the month (-125,000).

Currencies

USD: Dollar rally may continue for another 6-12 months

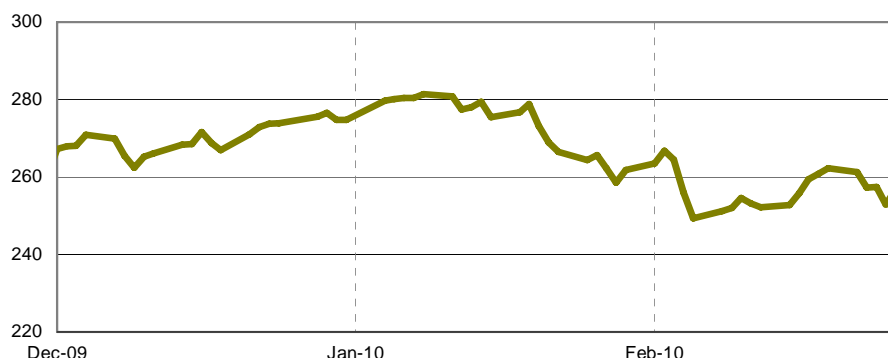
June 2010 forecasts		
EURUSD	USDJPY	USDCAD
1.37	91	1.03

The USD rally since December was probably sparked by an unwinding of short positions but is being sustained on Greek sovereign debt concerns and a period of US economic and asset market out-performance. Since then, the USD index has regained about half the ground lost from the March 2009 peak at just below 90. USD longs continue to grow, while EUR positions are at record shorts since the European Monetary Union began.

This presents a tricky dilemma. While USD longs are not yet extreme, EUR shorts seem to be so and may be poised for a short-term rebound. This suggests that it may be prudent to back off from shorting EURUSD at some point. But recent history suggests it is better to run with the trend until positioning turns. Also, USD seems to be driven by relative stock market performance. If US equities do outperform global indices this year, contrary to market expectations, USD is likely to make further gains as has been the case. All in, Citi analysts believe the USD index may rise a further 3%-4% over the next six to 12 months.

EUROPE

STOXX (1/12/2009 to 26/2/2010)



Source: Bloomberg

Economic Outlook

European Central Bank preview — Mini steps

This week, the European Central Bank (ECB) Governing Council will hold the first important meeting for 2010. In March, the Council will decide about the next steps of phasing-out the non-standard policy measures. With a pause in improving financial market conditions, Citi analysts expect only small additional steps in March. The ECB may probably announce some restriction for banks' access to the Long Term Refinancing Operations (LTROs), but Citi analysts do not expect a return to the pre-crisis standards. Furthermore, the ECB may probably announce to expand the unlimited availability of the Main Refinancing Operations (MROs) for 2Q10 and 3Q10.

The new ECB staff projections will be available in March as well, probably showing a marginal upward revision of the growth outlook and somewhat higher inflation forecast compared to December. However, the outlook remains for sluggish growth and low inflation, suggesting that interest rate hikes are likely to start gradually in 2011.

The Week Ahead

1/3

- **Euro Area:** An increase in the **unemployment rate** in January may be upwardly distorted by unusually harsh weather conditions (10.2%).

2/3

- **Italy:** **Inflation** likely moved sideways in February, still fairly low by historical standards (0.1% MoM, 1.3% YoY).

3/3

- **Germany:** Bad weather conditions likely had a negative impact on **retail sales** in January (-1.5% MoM, -1.7% YoY).
- **UK:** **The services PMI** slipped back in January after strong readings in recent months, but Citi analysts suspect that dip was temporary and look for a slightly stronger reading in February (5.5).

4/3

- **Euro Area:** The ECB is likely to keep the **policy rate** at 1%.
- **France:** After stabilising in 3Q, Citi analysts expect a further increase in the **unemployment rate** in 4Q (9.4%).
- **UK:** The Bank of England is expected to keep the **policy rate** at 0.5%.

5/3

- **Germany:** After a surprising big fall in **incoming orders** in December, a recovery in January is likely (16.1% YoY).

Equities

Macro risks take centre stage but likely US rate hike in 4Q10 is a positive

	Last week's close	Last week's return	YTD Return
STOXX	256.81	-2.10%	-6.53%
FTSE 100	5354.52	-0.07%	-1.08%
DAX	5598.46	-2.16%	-6.03%

Macro risks remain centre stage with Greece continuing to cause concern across financial markets. In Citi's view, resolution is unlikely to be resounding or prompt. While they believe that default may likely be avoided, risks are elevated.

Besides sovereign risk, the other key macro risks include Central Banks' exit strategies in 2010. The Federal Reserve (Fed) is anticipated to start hiking rates in 4Q10 and Citi analysts also expect a record steep US yield curve to flatten over the coming 12 to 18 months.

Historically, European equities have tended to perform well before and after the first rate hike in the US, and also in previous periods of US yield curve flattening. This supports Citi's positive stance on European equities over bonds in the coming 12-18 months.

Prefer: Basic Resources, Banks, Food & Bev

Less in favour: Autos, Oils, Utilities

Bonds

Euro government bond curve may steepen modestly

	Feb 26 2010	Feb 19 2010	Feb 12 2010
2-yr Try:	0.955%	1.086%	0.983%
5-yr Try:	2.127%	2.290%	2.218%
10-yr Try:	3.101%	3.285%	3.192%

Citi's outlook is less optimistic in the UK given the nation's fiscal burden and percolating inflation pressures. However, they have a more positive view on the government markets in the Euro area, where interest rates are likely to move only incrementally higher. Citi analysts do not expect European Central Bank (ECB) rate hikes to occur before early 2011 and anticipate the government curve to steepen modestly.

Currencies

EUR: Possible bounce in next 3 months
GBP: Weakening bias near-term

June 2010 forecasts		
GBPUSD	USDCHF	EURGBP
1.54	1.08	0.89

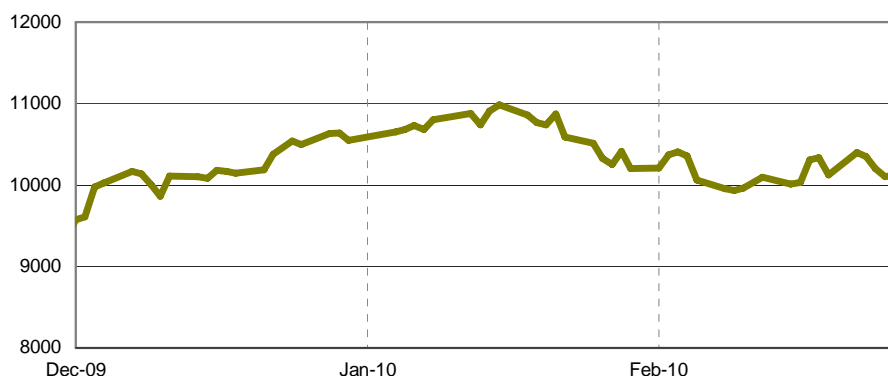
EURUSD has fallen about 11% from late-November highs, due largely to uncertainty about Greek sovereign debt risk. The situation remains fluid and acrimonious talk between Athens and Brussels/Frankfurt can cause further near-term EUR slippage. But over the next three months, Greece is likely to accede to further fiscal tightening in return for financing support. With EUR positioning extremely short, chances of a bounce are possibly higher than those of further weakening. Thereafter, the six-12-month outlook may be influenced by strains in other periphery Euro debt markets.

GBP continues to be plagued by negative fundamentals, including high debt levels. But GBP has become cheap versus Citi's long-term fair value estimate. It may also benefit from more hawkish policymakers, should inflation exceed expectations. All in, EURGBP is likely to edge up in the near term, given a possible EUR bounce and growing political uncertainty up till the UK election. Over the next six to 12 months, a sideways trading range is expected.

Source: CIRA

JAPAN

Nikkei 225 (1/12/2009 to 26/2/2010)



Source: Bloomberg

Economic Outlook

Household income growth appears unlikely this year

Economic activity continues to pick up, but the positive spill-over to household incomes is likely to be delayed further as there remains excesses in employment and companies continue to control personnel costs strictly in order to improve corporate profit margins. As a result, Citi analysts believe total employment income is very unlikely to increase in 2010.

Yet the situation now is probably somewhat better than in the recovery phase of the last downturn. Citi analysts expect the time-lag between a turnaround in nominal GDP and that in total employment income to be somewhat shorter this time than in the last recovery, which started in early 2002. This is because the non-financial corporate sector, in particular non-manufacturers, is in better shape structurally, while the financial system is healthier.

Equities

Dramatic change in structure of equity ownership

	Last week's Close	Last week's return	YTD return
Nikkei	10126.03	+0.02%	-3.99%
Topix	894.10	+0.56%	-1.49%

Japan is poised to make a big change over the long run from continental European systems to Anglo-Saxon ones. This is likely to see the equity ownership structure change from one focused on cross shareholdings, as in continental Europe, to one focused on institutional investors, as in the UK and US.

Key systemic changes in the pipeline include the introduction of IFRS, possibly around 2015; tougher capital adequacy rules for financial institutions instigated by the G20 and the Obama administration; tougher rules on listings of parent/subsidiary combinations; and tougher disclosure regulations from the FSA on cross shareholdings.

In particular, the introduction of mark-to-market accounting is likely to have a significant impact on Japan's cross shareholding ratio, which now stands at 40%. Citi analysts expect the corporate equity ownership ratio to decline substantially and that of financial institutions to fall even further.

But they also expect foreign ownership of Japanese equities to continue rising, sufficient to offset selling of cross shareholdings. Moreover, structural reform of equity ownership is expected to improve corporate governance, prospects for mergers and acquisitions, and enterprise asset efficiency. This would be positive for share prices.

Source: CIRA

Bonds

Looking to recovery as fiscal stimulus bolsters economy

	Feb 26 2010	Feb 19 2010	Feb 12 2010
2-yr Try:	0.165%	0.160%	0.165%
5-yr Try:	0.505%	0.515%	0.525%
10-yr Try:	1.305%	1.340%	1.335%

Investors took the nosedive in Japan's GDP in their stride as the result was fully priced into the bond market.

While second-quarter growth is likely to be slightly negative, the worst of the downturn appears to be over. Japanese consumer spending is expected to benefit from government incentives to purchase big-ticket items such as cars and appliances, while the overall economy should benefit from increased government spending on infrastructure projects.

As a result, Japanese government bond yields could potentially trade between 1.3% and 1.5% over the next several months, as monetary policy remains steady.

The Week Ahead

2/3

- Nominal **household spending** likely rose 0.9% in January, after gaining 0.3% in December. In real terms, household spending likely increased 2.4% in January, after December's 2.1% gain.
- The **unemployment rate** is expected to rise to 5.2% in January from 5.1% in December. While cyclical joblessness is peaking, structural and frictional unemployment likely pushed up the jobless rate. Total employment likely decreased 0.2% MoM, while the number of unemployed probably rose 1.9% MoM.

Currencies

JPY: Likely range-bound as currency follows broader USD trends

	June 2010 forecast	
USDJPY	EURJPY	AUDJPY
91	125	83.5

JPY faces conflicting influences. In recent months, Citi's relatively positive bias towards JPY has reflected the following perspectives: (i) USDJPY in real (inflation adjusted) terms is in the middle of the post-1985 (Plaza Accord) range. Fair value is 92, very close to spot, so JPY overvaluation issues are really all about JPY/Asia crosses; (ii) JPY has been resilient to previous US economic recoveries and the early stages of Fed tightening; (iii) JPY has not been alone in the carry trade funding currency camp. All these remain valid though Fed tightening over the medium term could flatten the US yield curve versus Japan's and encourage greater unhedged capital outflows from Japan, a JPY negative.

The big risk is a more significant CNY appreciation versus USD that may prompt Japan's authorities to be more comfortable with USDJPY at 76 than at 84-85. Overall, there appears little reason why JPY will not follow broader USD trends. This implies a range-bound outcome in the medium term.

ASIA PACIFIC EX JAPAN

MSCI Asia ex Japan (1/12/2009 to 26/2/2010)



Source: Bloomberg

Economic Outlook

Monetary policy at the crossroads

Asia's recent economic data has been more mixed after a strong 4Q09 but the outlook for 2010 remains robust. Export figures for January have been a little less consistent in beating forecasts but should still be fairly well supported this year as certain seasonal factors are resolved amid buoyant emerging market demand (though China momentum may slow) and US demand/re-stocking. Domestic demand is expected to be buoyant with an investment upturn on the horizon.

With economic recovery set to make further progress, a closing output gap, abnormally low interest rates, and rising inflation expectations argue for imminent policy normalisation. Momentum remains highest in India and Vietnam.

Citi analysts expect China to hike the bank reserve ratio requirement again, to as high as 18% (versus 17%) for large banks in the near term. The country may hold off on CNY appreciation till late 2Q10, as politics have complicated the timetable, with rate hikes deferred to 2H10.

The Week Ahead

1/3

- **China: The PMI** likely declined a second straight month in February to 55.0 from 55.8 in January.
- **Indonesia: Exports** likely surged 69.3% in January, after December's 49.8% jump.

2/3

- **Australia:** While it looks like a close call, Citi does not expect the RBA to raise the **cash rate** in March.
- **Australia: Retail sales** probably rose 0.5% in January, reversing December's 0.7% decline.
- **India:** The positive trend in **exports** is expected to continue in January, rising 11.5%, after December's 9.3% gain.
- **Korea: Exports** likely surged 21.8% in February, after January's 46.7% gain.

3/3

- **Korea: Industrial Production** likely grew 35% in January.

4/3

- **Indonesia: The policy rate** is expected to be kept at 6.5%.
- **Malaysia:** Citi analysts expect the **policy rate** to be raised 25bps to 2.25%.

5/3

- **Malaysia: Exports** likely surged 38.6% in January, after December's 18.7% growth.

Equities

Dividends today keep underperformance at bay

	Last week's close	Last week's return	YTD Return
MSCI Asia ex Japan	394.07	+1.18%	-5.39%

Over the past 10 years, Asia-ex Japan has given investors a compound total return of 5.9% per annum in USD terms. Of that, nearly half (46%, to be precise) came in the form of dividends. In certain markets and sectors, capital returns were negative over the period, and dividends were the only reward on offer for investors.

Over five-, 10- or 20-year periods, there has been no correlation between earnings growth and market returns. In fact, over the last five years that relationship has actually been negative. Not so with dividends, which have been more stable than earnings during the past six recessions. It is not surprising then that dividend yield has outperformed earnings growth in the past 20 years.

And when exiting downturns, dividends tend to beat growth, except towards the end of the cycle. Out of the 1997/98 financial crisis buying a dividend stream outperformed an earnings stream, as was the case out of the 2001 recession.

The moral of the story: Seek Asia's higher GDP growth. But once here, look for income (tangible) over growth (fleeting).

Source: CIRA

Bonds

Still largely constructive on spreads.

Asian spreads have had a firm start this year despite over US\$11 billion of new issues so far, with another US\$15-16 billion in the pipeline, including sovereign deals from Malaysia, Mongolia and Sri Lanka.

The turmoil in Greece spilled over to the rest of EM sovereigns in Asia in the early part of February, but a few weeks later, spreads have come in and are now even tighter. Nonetheless, year-to-date, the spread underperformers were mostly low spread, high grade names like Korea, Malaysia and Thailand whose spreads are around 20 bps wider. In comparison, China's CDS was firm, wider by less than 10 bps.

Currencies

AUD: Upside after near-term correction EM Asia: Strong growth points to gains

June 2010 forecasts		
AUDUSD	NZDUSD	USDSGD
0.91	0.71	1.38

AUD has corrected about 9% since mid-November peaks as the currency overran what fundamentals and policy rate differentials warranted, notwithstanding a pause last month in the Reserve Bank of Australia's (RBA's) rate tightening cycle. Still, more AUD upside is likely as Citi analysts expect further gains by commodity prices, driven by China and other emerging Asian markets. The RBA is also expected to resume rate hikes soon, despite tightening in China, as the domestic economy remains robust. Such tightening would be well ahead of likely similar moves by the US, European and UK central banks, and should add lustre to AUD.

More upside is likely in emerging Asian currencies. The region's large economies are expected to continue to grow robustly and policy tightening is likely to take place ahead of the rest of the world. Indeed, China has already started this process. For many Asian governments, comfort with currency appreciation depends on China letting CNY strengthen again. While some observers speculate that a one-off revaluation is imminent, Citi expects appreciation to resume only in late 2Q10.

WORLD MARKETS AT A GLANCE

Global Indices

(as at February 26, 2010)

	Previous Week's Close	52-Week High	52-Week Low	Weekly Return	YTD Return	YTD Return (USD)
UNITED STATES						
DJIA	10325.26	10729.89	6469.95	-0.74%	-0.99%	-0.99%
S&P 500	1104.49	1150.45	666.79	-0.42%	-0.95%	-0.95%
Nasdaq	2238.26	2326.28	1265.52	-0.25%	-1.36%	-1.36%
EUROPE						
DJ Euro STOXX	256.81	283.87	166.16	-2.10%	-6.53%	-11.28%
FTSE 100	5354.52	5600.48	3460.71	-0.07%	-1.08%	-6.67%
DAX	5598.46	6094.26	3588.89	-2.16%	-6.03%	-10.86%
JAPAN						
Nikkei 225	10126.03	10982.10	7021.28	+0.02%	-3.99%	-0.17%
TOPIX	894.10	987.27	698.46	+0.56%	-1.49%	+2.43%
ASIA						
MSCI Asia ex Japan	394.07	434.25	202.66	+1.18%	-5.39%	-5.39%
Hong Kong Hang Seng	20608.70	23099.57	11344.58	+3.59%	-5.78%	-5.87%
Shanghai Composite Index	3051.94	3478.01	2037.02	+1.12%	-6.87%	-6.86%
Taiwan Weighted Index	7436.10	8395.39	4328.05	-0.08%	-9.18%	-9.43%
Korea KOSPI	1594.58	1723.22	992.69	+0.04%	-5.24%	-4.47%
Mumbai Sensex	16429.55	17790.33	8047.17	+1.47%	-5.93%	-5.07%
Singapore Straits Times Index	2750.86	2947.08	1455.47	-0.23%	-5.06%	-5.11%
Kuala Lumpur Composite	1270.78	1308.52	836.51	+1.04%	-0.16%	+0.82%
Thai Stock Exchange	721.37	758.55	408.78	+2.99%	-1.79%	-0.75%
Jakarta Composite Index	2549.03	2689.78	1244.87	-0.21%	+0.58%	+1.42%
Philippines Stock Exchange Index	3043.75	3133.53	1745.39	+2.19%	-0.29%	-0.18%
Australia All Ordinaries	4651.10	4984.00	3090.80	-0.11%	-4.74%	-5.16%
COMMODITIES						
Gold	1117.60	1226.56	864.97	-0.14%	+1.88%	+1.88%
Oil	79.66	83.95	39.44	-0.19%	+0.38%	+0.38%
FIXED INCOME						
Citigroup World Government Bond Index	563.81	563.81	538.93	+0.72%	+1.14%	+1.14%

Source: Bloomberg

CURRENCY FORECASTS

Global Currencies

(As at March 1, 2010; Forecasts as of February 22, 2010)

Currency		1-Mar-2010	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
G10-US Dollar											
Euro	EURUSD	1.36	1.37	1.37	1.34	1.32	1.31	1.34	1.36	1.39	1.41
Japanese yen	USDJPY	89	91	91	92	93	93	92	91	90	89
British Pound	GBPUSD	1.51	1.55	1.54	1.52	1.49	1.49	1.54	1.58	1.62	1.66
Swiss Franc	USDCHF	1.07	1.07	1.08	1.09	1.11	1.11	1.08	1.06	1.04	1.01
Australian Dollar	AUDUSD	0.90	0.90	0.91	0.92	0.93	0.94	0.93	0.92	0.91	0.90
New Zealand	NZDUSD	0.70	0.70	0.71	0.71	0.72	0.71	0.70	0.68	0.66	0.64
Canadian Dollar	USDCAD	1.05	1.04	1.03	1.03	1.02	1.02	1.02	1.02	1.02	1.02
Dollar Index	DXY	80.47	80.14	80.07	81.24	82.45	82.56	81.12	79.72	78.36	77.05
G10 Crosses											
Japanese yen	EURJPY	122	125	125	123	122	121	122	123	124	125
Swiss Franc	EURCHF	1.46	1.47	1.48	1.47	1.46	1.45	1.44	1.44	1.43	1.43
British Pound	EURGBP	0.90	0.88	0.89	0.89	0.88	0.88	0.87	0.86	0.85	0.85
Swedish Krona	EURSEK	9.75	9.70	9.43	9.26	9.10	8.97	8.89	8.82	8.74	8.67
Norwegian Krone	EURNOK	8.04	8.06	8.01	7.93	7.85	7.79	7.76	7.74	7.71	7.69
Norwegian Krone	NOKSEK	1.21	1.20	1.18	1.17	1.16	1.15	1.15	1.14	1.13	1.13
Australian Dollar	AUDNZD	1.29	1.28	1.29	1.29	1.30	1.31	1.33	1.35	1.37	1.39
Australian Dollar	AUDJPY	87.7	82.5	83.5	85.0	86.5	86.7	84.9	83.0	81.2	79.3
EM Asia											
Chinese Renminbi	USDCNY	6.83	6.83	6.75	6.68	6.62	6.55	6.50	6.48	6.40	6.35
Hong Kong Dollar	USDHKD	7.76	7.76	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	9268	9100	9000	9100	9100	9150	9200	9150	9200	9300
Indian Rupee	USDINR	46.1	45.5	45.0	44.0	43.0	42.0	41.5	41.0	40.5	40.0
Korean Won	USDKRW	1154	1120	1100	1070	1090	1040	1040	1050	1050	1040
Malaysian Ringgit	USDMYR	3.39	3.37	3.29	3.36	3.34	3.37	3.32	3.23	3.20	3.14
Philippine Peso	USDPHP	46.1	46.5	45.9	45.5	44.8	45.0	45.3	45.5	45.3	45.5
Singapore Dollar	USDSGD	1.40	1.40	1.38	1.39	1.39	1.40	1.38	1.35	1.33	1.31
Thai Baht	USDTHB	32.9	32.9	32.5	32.4	32.3	32.0	32.1	32.3	32.5	32.5
Taiwan Dollar	USDTWD	32.0	32.0	31.8	31.8	31.3	31.0	31.3	31.5	31.0	30.8
EM Europe											
Czech Koruna	EURCZK	25.90	25.77	25.76	25.66	25.56	25.4	25.15	24.9	24.65	24.4
Hungarian Forint	EURHUF	269	270	271	275	278	280	280	280	280	280
Polish Zloty	EURPLN	3.94	3.94	3.88	3.83	3.78	3.73	3.70	3.66	3.62	3.58
Israeli Shekel	USDILS	3.78	3.74	3.69	3.68	3.66	3.64	3.63	3.62	3.61	3.59
Russian Ruble	USDRUB	29.9	29.8	29.5	29.7	29.9	29.7	29.0	28.2	27.5	26.8
Russian Ruble	Basket	34.8	34.7	34.4	34.3	34.1	33.8	33.3	32.8	32.3	31.8
Turkish Lira	USDTRY	1.54	1.52	1.55	1.59	1.63	1.65	1.64	1.64	1.63	1.63
South African Rand	USDZAR	7.67	7.66	7.60	7.54	7.62	7.70	7.83	8.01	8.20	8.39
EM Latam											
Brazilian Real	USDBRL	1.81	1.74	1.75	1.85	1.85	1.85	1.85	1.85	1.85	1.85
Chilean Peso	USDCLP	525	507	520	510	510	500	510	515	525	535
Mexican Peso	USDMXN	12.8	13.1	12.8	12.6	12.6	12.5	12.6	12.7	12.8	12.9
Colombian Peso	USDCOP	1927	2046	1930	1970	1980	2000	2000	2000	2000	2000

Source: CIRA, Bloomberg

GENERAL DISCLOSURE DISCLOSURES

"Citi analysts" refers to investment professionals within Citi Investment Research and Analysis, Citi Global Markets (CGM) and voting members of the Citi Global Investment Committee.

Citibank N.A. and its affiliates / subsidiaries provide no independent research or analysis in the substance or preparation of this document. The information in this document has been obtained from reports issued by CGM. Such information is based on sources CGM believes to be reliable. CGM, however, does not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute CGM's judgment as of the date of the report and are subject to change without notice. This document is for general information purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security or currency. No part of this document may be reproduced in any manner without the written consent of Citibank N.A. Information in this document has been prepared without taking account of the objectives, financial situation, or needs of any particular investor. Any person considering an investment should consider the appropriateness of the investment having regard to their objectives, financial situation, or needs, and should seek independent advice on the suitability or otherwise of a particular investment. Investments are not deposits or other obligations of, guaranteed or insured by Citibank N.A., Citigroup Inc., or any of their affiliates or subsidiaries, or by any local government or insurance agency, and are subject to investment risk, including the possible loss of the principal amount invested. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal. Past performance is not indicative of future performance, prices can go up or down. Some investment products (including mutual funds) are not available to US persons and may not be available in all jurisdictions. Investors should be aware that it is his/her responsibility to seek legal and/or tax advice regarding the legal and tax consequences of his/her investment transactions. If an investor changes residence, citizenship, nationality, or place of work, it is his/her responsibility to understand how his/her investment transactions are affected by such change and comply with all applicable laws and regulations as and when such becomes applicable. Citibank does not provide legal and/or tax advice and is not responsible for advising an investor on the laws pertaining to his/her transaction.

COUNTRY AND REGION SPECIFIC DISCLOSURES

- China** : This document is distributed in mainland China by Citibank (China) Co., Ltd.
- Australia** : This document is distributed in Australia by Citigroup Pty Ltd. ©2008 Citigroup Pty Limited ABN 88 004 325 080, AFSL 238098. For a full explanation of the risks of investing in any investment, please ensure that you fully read and understand the relevant Product Disclosure Statement (PDS) prior to investing.
- Hong Kong** : This document is distributed in Hong Kong by Citibank (Hong Kong) Limited ("CHKL"). Prices and availability of financial instruments can be subject to change without notice. Certain high-volatility investments can be subject to sudden and large falls in value that could equal the amount invested.
- Indonesia** : This report is made available in Indonesia through Citibank, N.A. Indonesia Branch, Citibank Tower Lt 7, Jend. Sudirman Kav 54-55, Jakarta. Citibank, N.A. Indonesia Branch is regulated by the Bank of Indonesia.
- Malaysia** : This document is distributed in Malaysia by Citibank Berhad.
- Philippines** : This document is made available in Philippines by Citicorp Financial Services and Insurance Brokerage Phils. Inc, Citibank N.A. Philippines, and/or Citibank Savings Inc. Investors should be aware that Investment products are not insured by the Philippine Deposit Insurance Corporation or Federal Deposit Insurance Corporation or any other government entity.
- Singapore** : This document is distributed in Singapore by Citibank Singapore Limited (CSL). Co Reg. No. 200309485K Where material is distributed by CSL, investors should note that Investment products are not subject to the provisions of the Deposit Insurance Act (Cap 77A) of the Republic of Singapore or eligible for deposit insurance coverage under the Deposit Insurance Scheme.
- United Kingdom** : This document is distributed in U.K. by Citibank International plc., it is registered in England with number 1088249. Registered office: Citigroup Centre, Canada Square, London E14 5LB. Authorised and regulated by the Financial Services Authority.