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Citi Sees Brighter Economic Outlook in Second Half of 2014

BANGKOK - Citi points to a modest reacceleration in real global GDP growth from 2.5% in 2013 to 3.0% in 2014. An improving macro environment and upward revisions to global GDP growth are likely to support greater investment in equity markets. So much so that Citi forecast 9% EPS growth and anticipate global equities (measured by MSCI Word Index) to hit 450 by the end of 2014.

Haren Shah, Chief Investment Strategist, Investment Strategy Group, Wealth Management of Asia Pacific, Citi, said, "In the first half of 2014, the key assumption of our views was the strengthening recovery of the US economy, which is likely to be the driver for equity outperformance and a more broad based normalization in both the global economy and monetary policy. But due to an unexpected harsh winter in the US, growth stalled in Q1 and only in Q2 we experienced a sharp rebound in growth."

Even though the momentum in growth is re-appearing, there was a damping effect on investor sentiment overall. Furthermore, the unexpected flare up in the Ukraine and the subsequent annexation by Russia of Crimea raised tensions between Russia and Western countries. Geo-political uncertainties are usually bad for markets and those involving large countries do have a major impact on financial markets. We expect that unless tensions de-escalate, this issue may continue to affect investor sentiment going forward.

Closer to home, China's economic restructuring and reforms are being closely monitored as there are many concerns about the slowing economy and its impact on financial stability. Fears of tightening credit on the property sector and the squeeze in shadow banking lending, concerns on funding stress, and defaults weigh on the financial health of the Chinese economy. But on the positive side, reforms are on-going and we do expect the Chinese authorities to ensure sufficient support for the economy so that their growth target of 7.5% is met.

With all of these headwinds, markets were volatile in the first half. Our key message was that with recovery, equities should outperform bond markets, and among equities, developed markets (DM) over emerging markets (EM). However, because of the volatility in markets, bonds outperformed equities. That said, in terms of equities our view of DM over EM was justified. Europe, our main call in DM, did see positive returns, but our call on Japan remains a major underperformer. US markets, as expected, remained range-bound as fundamentals played catch up to valuations. Our call on North Asia was mixed as concerns over China dampened interest, even as fundamental improved and valuations remained cheap.

Our views in the second half of 2014 still remain positive on equity markets and with the recent pick up in US economic data, our conviction calls remain on track. We feel our European call is starting to perform as monetary policy is loosened in the second half. US cyclical sectors should also be back in focus as the economy gains strength with earnings beginning to accelerate. What is also encouraging is that corporations are beginning to put their large cash holdings to work with M&A activity running at near record pace. At the same time, if the global economy strengthens in the second half, commodities could also see positive sentiment return over the next 12-18 months.

The outlook for the rest of this year is looking better. Headwinds should likely subside and economic fundamentals may assert themselves. Our key message is be patient, stay invested, buy on weakness but most importantly, stay the course."

For Asia continues to look the most attractive given fewer current account issues, stronger currencies and better credit scores. Citi analysts continue to expect Asia to show the strongest GDP (6.2% in 2014) within EM and inflation remains well anchored at 3.5% in 2014. Indeed, the export rebound is strengthening across the board, especially exports to the US. But, the lingering growth challenges in China still mean that the rebound is not strong by historical context. Nonetheless, optimism for structural reforms has risen in both India and Indonesia following favorable political developments, raising hopes that the slowdown in both is temporary.

At a national level, **Vira-anong C. Phutrakul, Managing Director - Retail Banking Head of Citibank Thailand**, said, "Citi believes the investment market in Thailand will continue to grow. This is the reason we introduce the enhanced Citigold Value Proposition to our clients starting today. It gives our wealth management clients the opportunity to enjoy special benefits and privileges when combined card spending and banking activities as well as cater to Citibank's Globally-minded clients' lifestyle– for example, a higher rate of 5X reward points on travel and overseas spending with Citibank Credit Card, airport limousine service, meet&assist and lounge access and so on."

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Media Contacts:

Citibank

Hassaya Hasitabhan
Tel: 0 2788 2904
E-mail: hassaya.hasitabhan@citi.com

Nipon Pila
Tel: 0 2788 2905 / 08 6789 7283
E-mail: nipon.pila@citi.com

Branded The Agency Co., Ltd.

Nirada Kaewthai / Sirirat Namkaew / Walairat Ruamrak
Tel: 0 2650 9090
E-mail: nirada@branded.co.th / sirirat@branded.co.th / walairat@branded.co.th